

VERNAL CITY CORPORATION
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

PAGE

<u>OPINION</u>	Independent Auditors' Report	1-2
<u>MD&A</u>	Management's Discussion and Analysis	3-18
<u>BASIC FINANCIAL STATEMENTS</u>		
	Government-wide Financial Statements:	
EXHIBIT 1	Statement of Net Assets	19
EXHIBIT 2	Statement of Activities	20
	Governmental Fund Financial Statements:	
EXHIBIT 3	Balance Sheet - Governmental Funds	21
EXHIBIT 4	Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	22
EXHIBIT 5	Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	23
EXHIBIT 6	Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	24
EXHIBIT 7	Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund	25-26
EXHIBIT 8	Statement of Net Assets - Proprietary Funds	27-28
EXHIBIT 9	Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds	29
EXHIBIT 10	Statement of Cash Flows - Proprietary Funds	30-31
	Fiduciary Fund Financial Statements:	
EXHIBIT 11	Statement of Fiduciary Net Assets - Fiduciary Funds	32
EXHIBIT 12	Statement of Changes in Fiduciary Net Assets - Fiduciary Funds	33
	Notes to the Financial Statements	34-63

**VERNAL CITY CORPORATION
FINANCIAL STATEMENTS
TABLE OF CONTENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>PAGE</u>
 <u>SUPPLEMENTARY INFORMATION</u>	
Combining and Comparative Statements and Schedules:	
SCHEDULE 1 Combining Balance Sheet - Nonmajor Governmental Funds	64-65
SCHEDULE 2 Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds	66-67
SCHEDULE 3 Combining Statement of Revenues and Expenses - Utility Fund	68
SCHEDULE 4 Comparative Balance Sheet - General Fund	69
SCHEDULE 5 Comparative Statement of Revenues and Expenses - Water Department	70
SCHEDULE 6 Comparative Statement of Revenues and Expenses - Sewer Department	71
SCHEDULE 7 Comparative Statement of Revenues and Expenses - Solid Waste Department	72
 <u>SUPPLEMENTAL STATE COMPLIANCE</u>	
Auditors' Report on State Compliance for State Grants	73-74
 <u>REPORTS ACCORDING TO GOVERNMENT AUDITING STANDARDS</u>	
Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	75-76

SMUIN, RICH & MARSING

CERTIFIED PUBLIC ACCOUNTANTS

294 East 100 South

Price, Utah 84501

Phone (435) 637-1203 • FAX (435) 637-8708

CRAIG G. SMUIN, C.P.A.

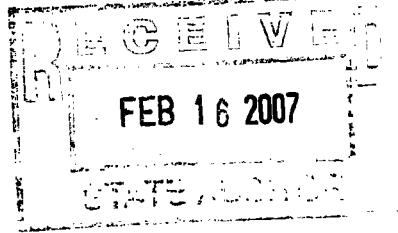
R. KIRT RICH, C.P.A.

GREG MARSING, C.P.A.

DOUGLAS RASMUSSEN, C.P.A.

MEMBERS

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
UTAH ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS



INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Members of the City Council
Vernal City Corporation
Vernal, Utah 84078

Ladies/Gentlemen:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Vernal City Corporation, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the foregoing table of contents. These financial statements are the responsibility of Vernal City Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as described in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

We did not audit the financial statements supporting the City's investment in a joint venture, Ashley Valley Sewer Management Board, stated at \$6,282,305 on June 30, 2006, or its equity in the loss of that entity of \$129,306, which is included in net income for the year then ended as described in Note 15 to the financial statements. Those statements were audited by other auditors, whose report has been furnished to us and in our opinion, insofar as it relates to the amounts included for Ashley Valley Sewer Management Board, is based solely on the report of other auditors.

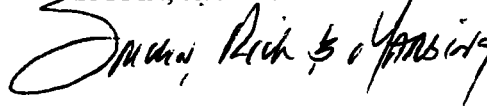
In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Vernal City Corporation as of June 30, 2006, and the respective changes in financial position and the respective budgetary comparison for the General Fund and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 15, 2006, on our consideration of Vernal City Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis information on pages 3 through 18 is not a required part of the basic financial statements, but is supplementary information, required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Vernal City Corporation's basic financial statements. The combining and individual nonmajor fund statements and schedules in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of Vernal City Corporation. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

SMUIN, RICH & MARSING



Price, Utah

November 15, 2006

**VERNAL CITY CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
2005-2006**

As management of Vernal City, we offer readers of Vernal City's financial statements this narrative overview and analysis of the financial activities of Vernal City for the fiscal year ended June 30, 2006

Financial Highlights

- ❖ The assets of Vernal City exceeded its liabilities at the close of the most recent fiscal year by \$38,896,445 (*net assets*). Of this amount, \$3,521,026 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- ❖ The government's total net assets increased by \$2,999,675.
- ❖ As of the close of the current fiscal year, Vernal City's governmental funds reported combined ending fund balances of \$20,777,861 an increase of \$2,868,333 in comparison with the prior year. Approximately nine percent of this total amount, \$1,969,015 is *available for spending* at the government's discretion (*unreserved fund balance*).
- ❖ At the end of the current fiscal year, unreserved fund balance for the general fund was \$1,796,783 or 21 percent of total general fund expenditures and financial uses.
- ❖ Vernal City's total debt decreased by \$696,668 (7.3 percent) during the current fiscal year. The key factor in this decrease was the payment of debt.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to Vernal City's basic financial statements. Basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements: The *government wide financial statements* are designed to provide readers with a broad overview of Vernal City's finances, in a manner similar to a private-sector business.

- ❖ The *statement of net assets* presents information on all of Vernal City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Vernal City is improving or deteriorating.
- ❖ The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of Vernal City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of Vernal City include general government, public safety, public works, and parks and recreation. The business-type activities of Vernal City include the Water, Sewer and Solid Waste Fund and a Municipal Building Authority and a Golf Course fund.

The government-wide financial statements include Vernal City itself (known as the *primary government*). The Municipal Building Authority, although also legally separate, functions for all practical purposes as a department of Vernal City, and therefore has been included as an integral part of the primary government. The government-wide financial statements can be found on pages 19-20 of this report.

Fund Financial Statements:

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Vernal City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Vernal City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

❖ Governmental funds.

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements, however, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

- Because the focus of governmental funds is narrower, than that of the government-wide financial statements, it is useful to compare the information presented for government funds with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.
- Vernal City maintains many individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund. Data from the other governmental funds are combined into a single aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.
- Vernal City adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.
- The basic governmental fund financial statements can be found on pages 21-26 of this report.

❖ **Proprietary funds.**

- Vernal City maintains one type of proprietary fund called an enterprise fund. Enterprise funds are used to report the same functions presented as *business-type activities* in the government-wide financial statements.
- Vernal City uses enterprise funds to account for its Water and Sewer and Solid Waste distribution and collection operation, and for its Municipal Building Authority, which accounts for revenues and expenses used for government buildings as well as Streets & Roads within Vernal City.
- Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer and Solid Waste operation, for the operation of the Municipal Building Authority, both of which are considered to be major funds of Vernal City.
- The basic proprietary fund financial statements can be found on pages 27-31 of this report.

Vernal City as Trustee

Vernal City is a trustee—it is responsible for other assets that—because of a trust arrangement—can be used only for the trust beneficiaries. All of Vernal City's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 32 and 33. We exclude these activities from Vernal City's other financial statements because Vernal City cannot use these assets to finance its operations. Vernal City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 34-63 of this report.

Other information:

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and schedules can be found on pages 64-68 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Vernal City, assets exceeded liabilities by \$38,896,445 at the close of the most recent fiscal year.

By far the largest portion of Vernal City's net assets (77 %) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. Vernal City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although Vernal City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of Vernal City's net assets (14 %) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$3,521,026) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, Vernal City is able to report positive balances in all three categories of net assets, both for the government as a whole as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

The government's net assets increased \$2,999,675 during the current fiscal year. Governmental activities grew \$2,868,333 with most of that being unrestricted for use or meaning what is best for Vernal City. Business-type activities grew \$ 131,342 but most of that will be restricted for infra structure use.

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Current assets	\$ 9,348,117	\$ 6,591,525	\$ 2,085,342	\$ 2,516,508	\$ 11,433,459	\$ 9,108,033
Capital assets	18,915,439	18,832,315	20,015,365	19,883,005	38,930,804	38,715,320
Total assets	<u>\$ 28,263,556</u>	<u>\$ 25,423,840</u>	<u>\$ 22,100,707</u>	<u>\$ 22,399,513</u>	<u>\$ 50,364,263</u>	<u>\$ 47,823,353</u>
Long-term debt outstanding	\$ 4,760,000	\$ 5,438,000	\$ 3,261,908	\$ 3,966,845	\$ 8,021,908	\$ 9,404,845
Other liabilities	2,725,695	2,076,312	720,215	445,426	3,445,910	2,521,738
Total liabilities	<u>\$ 7,485,695</u>	<u>\$ 7,514,312</u>	<u>\$ 3,982,123</u>	<u>\$ 4,412,271</u>	<u>\$ 11,467,818</u>	<u>\$ 11,926,583</u>
Net assets:						
Invested in capital assets, net of debt	\$ 13,545,251	\$ 13,336,283	\$ 16,432,898	\$ 15,530,242	\$ 29,978,149	\$ 28,866,525
Restricted	5,435,827	3,511,652	133,675	234,664	5,569,502	3,746,316
Unrestricted	1,796,783	1,061,593	1,552,011	2,222,336	3,348,794	3,283,929
Total net assets	<u>\$ 20,777,861</u>	<u>\$ 17,909,528</u>	<u>\$ 18,118,584</u>	<u>\$ 17,987,242</u>	<u>\$ 38,896,445</u>	<u>\$ 35,896,770</u>

Governmental activities: Governmental activities increased Vernal City's net assets by \$2,868,333 thereby accounting for 96 % of the total growth in the net assets of Vernal City. Key elements of this increase are as follows:

Table 2
Changes in Net Assets

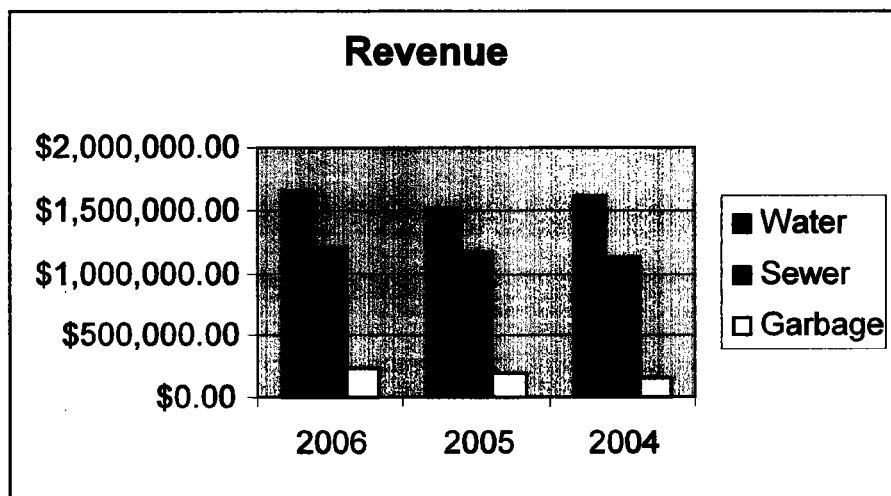
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Revenues						
Program Revenues:						
Charges for services	\$ 1,080,894	\$ 910,871	\$ 3,266,072	\$ 3,192,835	\$ 4,346,966	\$ 4,103,706
Operating grants and contributions	428,517	350,644		131,537	428,517	482,181
Capital grants and contributions	19,109	25,156		779,847	19,109	805,003
General Revenues:						
Property taxes	244,585	241,841	155,520	150,000	400,105	391,841
Sales and franchise taxes	6,492,438	5,017,535			6,492,438	5,017,535
Grants and contrib. not restricted	125,603	88,818	57,499		183,102	88,818
Unrestricted investment earnings	260,221	123,370	38,164	17,307	298,385	140,677
Gain (loss) on disp. of fixed assets	75,088				75,088	
Business-type act. cost sharing	870,348	779,736			870,348	779,736
Other general revenues	150,747	58,034	5,558	59,759	156,305	117,793
Transfers in (out)	46,556	(128,134)	(46,556)	128,134		
Joint venture gain (loss)			(129,306)	(158,960)	(129,306)	(158,960)
Interest expense			(52,314)		(52,314)	
Impact fee's			177,255		177,255	
Total revenues	\$ 9,794,106	\$ 7,467,871	\$ 3,471,892	\$ 4,300,459	\$ 13,265,998	\$ 11,768,330
Program Expenses						
General government	\$ 1,612,350	\$ 1,298,320			\$ 1,612,350	\$ 1,298,320
Public safety	2,591,922	2,084,019			2,591,922	2,084,019
Public works	2,039,262	1,315,407			2,039,262	1,315,407
Parks and recreation	282,243	572,840			282,243	572,840
Intergovernmental	16,077	197,568			16,077	197,568
Capital outlay	260,729	646,609			260,729	646,609
Interest on long-term debt	123,190	106,974			123,190	106,974
Utility fund			\$ 3,229,489	\$ 3,100,943	3,229,489	3,100,943
Municipal building authority			103,413	134,289	103,413	134,289
Golf Course			7,648	7,648	7,648	7,648
Total expenses	\$ 6,925,773	\$ 6,221,737	\$ 3,340,550	\$ 3,242,880	\$ 10,266,323	\$ 9,464,617
Change in net assets	\$ 2,868,333	\$ 1,246,134	\$ 131,342	\$ 1,057,579	\$ 2,999,675	\$ 2,303,713
Net Assets - beginning	17,909,528	16,675,106	17,987,242	16,929,663	35,896,770	33,604,769
Net Assets - ending	\$ 20,777,861	\$ 17,921,240	\$ 18,118,584	\$ 17,987,242	\$ 38,896,445	\$ 35,908,482

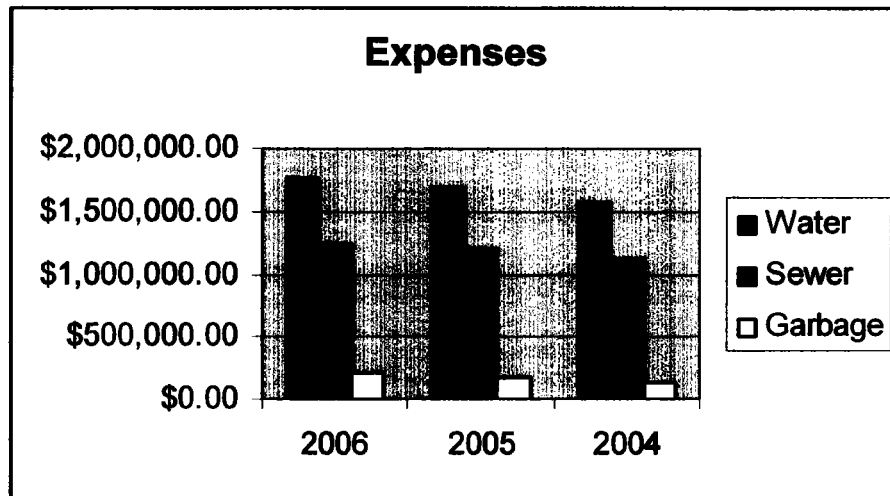
- ❖ Sales Tax collected increased \$927,000 (28 %) during the year. This increase is due largely to the increase in activity in oil and gas in the Uintah Basin.
- ❖ Innkeeper room tax increased \$26,386 (42 %). Low housing market and high job market.
- ❖ Franchise Taxes increased by \$156,390 (20.0%). Tax is based on revenue, increase shows economy is growing.
- ❖ Building permits increased \$38,000 (25 %).
- ❖ Justice Court fines increased \$119,910 (35 %). Shows increase activity in Vernal City.
- ❖ Vernal City's Balance Sheet: Assets grew 25 % while Liabilities grew 1 %.

Business-type activities: Business-Type activities comprise of Utility Fund, Municipal Building Authority, and Golf Course (record keeping only). Business-type activities increased Vernal City's net assets by \$ 131,342 accounting for 4 % of the total growth in the government's net assets. Key elements of this increase are as follows:

- ❖ Utility Fund is separated into 3 departments Water, Sewer, Solid Waste. The following is a breakdown of the increase to net profit per department as of net assets:

1) Water-	\$ 116,885
2) Sewer-	\$(111,973)
3) Solid Waste-	\$ 1,294





- ❖ Utility Fund operating revenue increased 7% while non-operating revenue decreased significantly due to last years grant. Prior year Vernal City had a grant and inter-local governmental contributions. Utility Fund collected Property tax of \$150,000. Impact fees increased \$73,390 (70 %). Solid Waste was break even. Municipal Building Authority had an increase in net asset, but principle payment of debt was not considered.
- ❖ Expenses for the Utility department increased 4%.
- ❖ Water Department spent \$91,500 on upgrading meters to Wand read. 2005 C.I.B water line replacement was finished in the amount of \$565,000 (Grant). Dale Avenue project was finished. Debt payments in the amount of \$139,000
- ❖ Sewer Department purchased a sewer video system \$31,700. They also began work on the 2006 sewer improvement project. Debt payment in the amount of \$41,000
- ❖ Investment earnings increased by \$15,352 for business-type activities because of an overall increase in rates and Grant money being deposited.
- ❖ The Municipal Building Authority of Vernal City, Utah (the "Issuer's MBA"), was created to acquire projects for the Issuer pursuant to the Utah Municipal Building Authority Act. The Issuer's MBA has no assets, except for those purchased with the lease revenue bonds. The Issuer's MBA debt does not constitute legal debt within the meaning of any constitutional or statutory limitation of the Issuer. The Issuer's MBA entered into annual lease with the Issuer that may be terminated by the Issuer in any year and lease payments by the Issuer may be made only from funds that are annually budgeted and appropriated by the Issuer for such purposes. The lease revenue bonds of the Issuer's MBA are secured by an assignment of the Issuer's lease payments and a security interest in the project financed by such bonds.

Financial Analysis of the Government's Funds

As noted earlier, Vernal City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental fund: The focus of Vernal City's governmental funds is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing Vernal City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

- ❖ As of the end of the current fiscal year, Vernal City's governmental funds reported combined ending fund balances of \$7,232,610 an increase of \$2,508,413 (53%) in comparison with the prior year. Approximately 97.0% of this total amount \$6,983,531 constitutes *unreserved fund balance*, which is available for spending at the government's discretion. City Council has already designated \$5,186,748 to appropriate projects. The remainder of fund or 3% balance is *reserved* to indicate that it is not available for new spending because it has already been committed; Animal Shelter carry-over of private donations \$14,400, the construction of Class "C" road projects \$62,446, to pay for earned but unused compensated absences of City employees \$172,232.
- ❖ The General fund is the chief operating fund of Vernal City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$1,796,783, while total fund balance reached \$2,042,862. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 30% of total general fund expenditures, while total fund balance represents 35% of that same amount.
- ❖ The fund balance of Vernal City's general fund increased by \$629,792 during the current fiscal year. Key factors in this growth are as follows:
 - Total Revenue was up 3% above Budget. Total taxes collected showed a significant increase of \$ 1,477,600 (28%), of which local sales tax collections and charges for services were up from prior year. This increase was primarily generated by the increase in the total economy for the area in the past year. There was no sales tax rate increased in the current fiscal year.
 - Total Expenditures for General Fund were 3% under Budget.
 - Total of Other Financing Resources or Transfers out increased by 25% (\$750,000). This was money set aside for future projects. Some of those projects are Street Construction Fund, Municipal Building Fund, and two new funds were set up; Legacy and Emergency preparedness fund.
- ❖ The Debt Service fund is dedicated to the payments of outstanding debt. In the current year Vernal City paid \$421,266 for principal and interest payments on sales tax / highway bonds.
- ❖ The Street Construction fund balance has been restricted by the City council for use on street construction. This year \$203,000 was used for curb, gutter, and sidewalk replacement. 500 South widening Project started and will continue into next year. The City participated in a Federal Rebuild of 500 North. The City also did chip and seal in the amount of \$264,590.

- ❖ The City Wide S.I.D. fund began the Special Improvement District for the 2006 Year. The project will go into next fiscal year.
- ❖ Municipal Building Fund remodeled the Police Department. They replaced the carpet, lighting, removed paneling, restructured some walls, and new front waiting room. Project was started prior year. The Administration office basement was reinforced with a couple of walls to surround the furnaces and new shelves for storage. Total cost was \$4,000.
- ❖ Educational Development Fund did a study on educational economic impact study. The study was on concurrent enrollment, educational trends, wealth distribution, ECT. They are also in the early stages for a strategic plan.

Proprietary funds: Vernal City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The Proprietary Fund is made up of Utility Fund, Municipal Building Authority, and Golf Course.

- ❖ Net assets for the Utility Fund is; \$18,118,584. Unrestricted fund balance at the end of the year amounted to \$1,552,011, or (9%) of total net assets. This amount is available for use in the Utility fund. Restricted net assets of the Utility Fund at the end of the year amounted to \$133,675, or (1%) of total net assets. The remainder of the net assets \$16,432,898, or (90%) is invested in capital assets, net of related debt.
- ❖ Net assets for the Municipal Building Authority amounted to \$1,869,455. Unrestricted net assets increased by \$132,784, and at the end of the year amounted to \$194,508. The remainder \$1,674,947 of the total net assets are invested in capital assets net of related debt.
- ❖ The total growth in net assets for all funds was \$131,342 respectively. Other factors concerning the finances of these funds have already been addressed in the discussion of Vernal City's business-type activities.

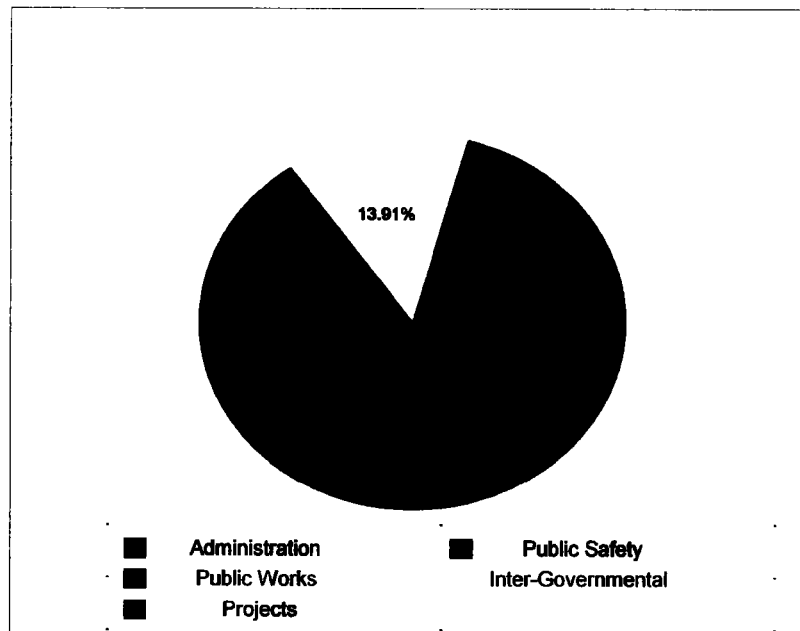
General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were (\$894,700 increase in appropriations) and can be briefly summarized as follows:

- Revenue increase in all service rendered.
- Fire Department Grant set-aside for 2007
- \$29,000 increase allocated to Mayor & City council
- \$20,300 increase allocated to City Attorney
- \$14,500 increases allocated to Government Buildings
- \$78,100 increase allocated to Police Department
- \$13,211 increase to Animal Shelter

- \$224,900 decrease to Streets Department
- \$1,600,000 increase to transfers & projects
- All other general fund departments had budget changes of less than \$10,000. This increase was to be funded out of increases in tax revenues. The net changes to the final budget resulted in an appropriated increase to fund balance of \$105,960. During the year, revenues exceeded final amended budgetary estimates by \$345,550 and final expenditures were less than budgetary estimates by \$284,250.

General Fund Actual Expenditure



Capital Asset and Debt Administration

Capital assets: Vernal City's investment in capital assets for its governmental and Business-type activities as of June 30, 2006, amounts to \$32,648,499 net of accumulated depreciation. This investment in capital assets includes land, buildings and system improvements, machinery and equipment, park facilities, roads and highways. The total increase in Vernal City's investment in capital assets for the current fiscal year was 8% increase for governmental activities and a 4% increase for business-type activities.

Major capital asset events during the current fiscal year included the following:

- City Manager new vehicle.
- Administrative office carpet & windows. Parking lot seal & coat.
- Police department purchased 3 new vehicles & Tasers for the officers.
- New kennels for Animal Shelter and re-epoxy floors.
- Streets Purchased Unimog along with attachments.
- Administrative Building improvements
- Waterline Replacement

Additional information on Vernal City's capital assets can be found in note 5 on pages 44-47 of this report.

Table 3
Vernal City's Capital Assets
Net of Depreciation

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Primary Government				
Governmental activities:				
Capital assets not being depreciated:				
Land and easements	\$ 1,236,661			\$ 1,236,661
Water stock	<u>23,195</u>			<u>23,195</u>
 Total capital assets not being depreciated	 <u>\$ 1,259,856</u>	 <u>\$...</u>	 <u>\$...</u>	 <u>\$ 1,259,856</u>

Table 3 (Cont'd)
Vernal City's Capital Assets
Net of Depreciation

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Primary Government				
Governmental activities:				
Capital assets being depreciated:				
Buildings	\$ 922,977			\$ 922,977
Improvements other than buildings	2,606,945	\$ 95,394		2,702,339
Machinery and equipment	1,617,287	140,374	\$ 118,853	1,638,808
Automotive equipment	1,826,895	257,870	85,177	1,999,588
Infrastructure	<u>16,023,096</u>	<u>483,777</u>		<u>16,506,873</u>
 Total capital assets being depreciated:	 <u>\$ 22,997,200</u>	 <u>\$ 977,415</u>	 <u>\$ 204,030</u>	 <u>\$ 23,770,585</u>
 Less accumulated depreciation for:				
Buildings	\$ 264,013	\$ 30,555		\$ 294,568
Improvements other than buildings	256,612	92,931		349,543
Machinery and equipment	934,310	94,627	\$ 109,240	919,697
Automotive equipment	1,041,177	102,700	56,741	1,087,136
Infrastructure	<u>2,928,629</u>	<u>535,429</u>		<u>3,464,058</u>
 Total accumulated depreciation	 <u>\$ 5,424,741</u>	 <u>\$ 856,242</u>	 <u>\$ 165,981</u>	 <u>\$ 6,115,002</u>
 Total capital assets being depreciated, net	 <u>\$ 17,572,459</u>	 <u>\$ 121,173</u>	 <u>\$ 38,049</u>	 <u>\$ 17,655,583</u>
 Governmental activities capital assets, net	 <u>\$ 18,832,315</u>	 <u>\$ 121,173</u>	 <u>\$ 38,049</u>	 <u>\$ 18,915,439</u>

Table 3 (Cont'd)
Vernal City's Capital Assets
Net of Depreciation

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital assets not being depreciated:				
Land and easements	\$ 588,544			\$ 588,544
Water Stock	54,956			54,956
Total capital assets not being depreciated:	<u>\$ 643,500</u>	<u>\$...</u>	<u>\$...</u>	<u>\$ 643,500</u>
Capital assets being depreciated:				
Buildings	\$ 1,867,528			\$ 1,867,528
Improvements other than buildings	17,058,461	\$ 607,604	\$ 8,942	17,657,123
Machinery and equipment	579,654	123,601	10,144	693,111
Automotive equipment	501,800		167,499	334,301
Total capital assets being depreciated	<u>\$ 20,007,443</u>	<u>\$ 731,205</u>	<u>\$ 186,585</u>	<u>\$ 20,552,063</u>
Less accumulated depreciation for:				
Buildings	\$ 620,917	\$ 58,259		\$ 679,176
Improvements other than buildings	5,784,075	350,906	\$ 1,609	6,133,372
Machinery and equipment	507,117	13,921	10,146	510,892
Automotive equipment	267,440	39,123	167,500	139,063
Total accumulated depreciation	<u>\$ 7,179,549</u>	<u>\$ 462,209</u>	<u>\$ 179,255</u>	<u>\$ 7,462,503</u>
Total capital assets being depreciated, net	<u>\$ 12,827,894</u>	<u>\$ 268,996</u>	<u>\$ 7,330</u>	<u>\$ 13,089,560</u>
Business-type activities capital assets, net	<u>\$ 13,471,394</u>	<u>\$ 268,996</u>	<u>\$ 7,330</u>	<u>\$ 13,733,060</u>

Long-term debt: At the end of the current fiscal year, Vernal City has no General Obligation debt outstanding. Vernal City had total bonded debt outstanding of \$ 8,708,177. All of this debt represents bonds secured solely by specified revenue sources (i.e. revenue bonds). Vernal City also has \$491,000 special assessment debt for which the government is liable in the event of default by the property owners subject to the assessment.

TOTAL GOVERNMENTAL ACTIVITY

YEAR ENDING JUNE 30,	PRINCIPAL	INTEREST	TOTAL
2007	\$ 255,000	\$ 68,775	\$ 323,775
2008	312,000	79,364	391,364
2009	365,000	102,721	467,721
2010	373,000	93,686	466,686
2011	375,000	84,427	459,427
2012-2016	1,740,000	288,655	2,028,655
2017-2021	1,108,000	139,575	1,247,575
2022-2026	461,000	52,225	513,225
2027-2029	149,000	5,600	154,600
	<u>\$ 5,138,000</u>	<u>\$ 915,028</u>	<u>\$ 6,053,028</u>

TOTAL BUSINESS-TYPE ACTIVITY

YEAR ENDING JUNE 30,	PRINCIPAL	INTEREST	TOTAL
2007	\$ 308,269	\$ 56,531	\$ 364,800
2008	335,000	54,692	389,692
2009	314,000	48,658	362,658
2010	261,000	43,305	304,305
2011	226,000	39,267	265,267
2012-2016	1,074,000	148,108	1,222,108
2017-2021	617,908	62,726	680,634
2022-2026	434,000	18,300	452,300
	<u>\$ 3,570,177</u>	<u>\$ 471,587</u>	<u>\$ 4,041,764</u>

- ❖ Vernal City didn't incur any debt FY 2006. Vernal City did pay a total of \$696,668 to all debt payment. Vernal City did start work on the S.I.D for FY 2006.
- ❖ Because Vernal City has no general obligation debt and all other debt is financed through the State of Utah and its several debt financing boards, we do not maintain a bond rating from outside rating agencies such as Standard & Poor's, Fitch and Moody's.
- ❖ State statutes limit the amount of general obligation debt a governmental entity may issue to 4 percent of the value of the taxable property in the City. The current debt limitation for Vernal City is \$10,115,940, plus an additional 8 percent \$20,231,880 for water, artificial lights and sewers.

Additional information on Vernal City's long-term debt can be found in note 7 on pages 50-53 of this report.

Economic Factors and Next Year's Budgets and Rates

- ❖ The unemployment rate for Vernal City/Uintah County is currently 2.5%. Compared to the state's current unemployment rate of 3.1% percent and the national rate of 4.6%.
- ❖ Employment rate from previous year was 3.8%
- ❖ The current job market for the area is showing strength with an increase of double-digit job growth. The oil, gas and mining added 590 new positions and service-producing industries added 738 jobs.
- ❖ The occupancy rate of Vernal City's central business district has remained strong. The City is working hard to maintain vitality of the down town business community.
- ❖ The largest employers in the Vernal City/Uintah County area are:

<u>Company</u>	<u>Industry</u>	<u>Employment</u>
1. Uintah School District	Public Education	500-999
2. Uintah County	Local Government	250-499
3. Ute Indian Tribe	Tribal Government	250-499
4. Wal-Mart	Discount Department Store	250-499
5. Ashley Valley Med. Center	Health Care	100-249

- ❖ Inflationary trends in the region compare favorably to national indices.

All of these factors were considered in preparing Vernal City's budget for the 2006 fiscal year.

Because of the strong position of the general fund unrestricted fund balance \$1,796,783 at the end of this year, coupled with the current strong economy that is projected to increase the collection of sales and other user taxes, the City has reduced the general property tax in the general fund by \$150,000 or a 50% reduction. The other \$150,000 has been budgeted for use in the Water utility fund. This has made it possible for the city to maintain the current water and sewer rates for the new budget year.

The combined budget proposed for the fiscal year ending June 30, 2007 is \$13,894,786. This represents an increase of \$2,413,239 from the combined budget for June 30, 2006. This is primarily due to the fact that Vernal City will be seeking funding for projects to expand and upgrade infrastructure and equipment. Most other changes in the budget for next year are based primarily on normal inflationary cost of goods and services.

Requests for Information

This financial report is designed to provide a general overview of Vernal City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Director, 447 East Main, Vernal City, Utah, 84078.

VERNAL CITY CORPORATION
STATEMENT OF NET ASSETS
JUNE 30, 2006

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
<u>ASSETS</u>			
Cash and cash equivalents	\$ 438,327	\$ 64,412	\$ 502,739
Investments: restricted	767,578	388,028	1,155,606
Investments at cost	6,502,730	206,476	6,709,206
Assessments receivable	201,673		201,673
Miscellaneous receivable	94,414	227,490	321,904
Due from other funds		1,160,446	1,160,446
Due from other governmental units	1,338,395	2,714	1,341,109
Inventory of supplies	5,000	35,776	40,776
Capital assets (net of accumulated depreciation):			
Water stock	23,195	54,956	78,151
Land and assessments	1,236,661	588,544	1,825,205
Buildings	628,409	1,188,352	1,816,761
Improvements other than buildings	2,352,796	11,523,751	13,876,547
Machinery and equipment	719,111	182,219	901,330
Infrastructure	13,042,815		13,042,815
Automotive equipment	912,452	195,238	1,107,690
Investment in joint venture		6,282,305	6,282,305
Total assets	\$ 28,263,556	\$ 22,100,707	\$ 50,364,263
<u>LIABILITIES</u>			
Accounts payable	\$ 266,039	\$ 254,942	\$ 520,981
Due to other funds	1,285,654		1,285,654
Accrued liabilities	5,234	10,303	15,537
Escrow deposit payable	371,019	15,930	386,949
Bond interest payable	59,956	35,390	95,346
Due to other governmental units		90,381	90,381
Deferred revenue	187,561	5,000	192,561
Noncurrent liabilities:			
Revenue bonds payable - Due within one year	305,000	308,269	613,269
Revenue bonds payable - Due in more than one year	4,833,000	3,261,908	8,094,908
Compensated absences	172,232		172,232
Total liabilities	\$ 7,485,695	\$ 3,982,123	\$ 11,467,818
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	\$ 13,545,251	\$ 16,432,898	\$ 29,978,149
Restricted for:			
Class "B" Roads	62,446		62,446
Special revenue funds	221,475		221,475
Capital projects	4,486,453		4,486,453
Animal shelter	14,401		14,401
Utility fund restrictions		133,675	133,675
Debt service	478,820		478,820
Unrestricted	1,969,015	1,552,011	3,521,026
Total net assets	\$ 20,777,861	\$ 18,118,584	\$ 38,896,445

"The notes to the financial statements are an integral part of this statement."

VERNAL CITY CORPORATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGE IN NET ASSETS		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	PRIMARY GOVERNMENT	
					GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES
FUNCTION/PROGRAMS						
Primary government:						
Governmental activities:						
General government	\$ 1,612,350	\$ 709,062			\$ (903,288)	\$ (903,288)
Public safety	2,591,922	332,885	\$ 87,650	\$ 19,109	(2,152,278)	(2,152,278)
Highways and public improvements	2,039,262	38,947	340,867		(1,659,448)	(1,659,448)
Parks and recreation	282,243				(282,243)	(282,243)
Economic development	16,077				(16,077)	(16,077)
Intergovernmental	260,729				(260,729)	(260,729)
Interest on long-term debt	123,190				(123,190)	(123,190)
Total governmental activities	\$ 6,925,773	\$ 1,080,894	\$ 428,517	\$ 19,109	\$ (5,397,253)	\$ (5,397,253)
Business-type activities:						
Utility fund	\$ 3,229,489	\$ 3,063,928			\$ (165,561)	\$ (165,561)
Municipal Building Authority	103,413	202,144			98,731	98,731
Golf Course	7,648				(7,648)	(7,648)
Total business-type activities	\$ 3,340,550	\$ 3,266,072	\$	\$	\$ (74,478)	\$ (74,478)
Total primary government	\$ 10,266,323	\$ 4,346,966	\$ 428,517	\$ 19,109	\$ (5,397,253)	\$ (5,471,731)
General revenues:						
Property taxes					\$ 244,585	\$ 155,520
Sales and franchise taxes					6,492,438	6,492,438
Grants and contributions not restricted to specific programs					125,603	57,499
Unrestricted investment earnings					260,221	38,164
Gain (loss) on disposition of fixed assets					75,088	298,385
BTA's cost sharing allocation					870,348	75,088
Miscellaneous					150,747	870,348
Joint venture gain (loss)						5,558
Interest expense						(129,306)
Impact fees						(52,314)
Transfers in (out)					46,556	177,255
Total general revenues and transfers					\$ 8,265,586	\$ 205,820
Change in net assets					\$ 2,868,333	\$ 131,342
Net assets - beginning					17,909,528	17,987,242
Net assets - ending					\$ 20,777,861	\$ 18,118,584

The notes to the financial statements are an integral part of this statement.

VERNAL CITY CORPORATION
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	GENERAL FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<u>ASSETS</u>			
Cash	\$ 436,840	\$ 1,487	\$ 438,327
Investments: restricted		767,578	767,578
Investments at cost	2,286,324	4,216,406	6,502,730
Receivables (net):			
Assessments		201,673	201,673
Accounts	92,341	2,073	94,414
Due from other funds		374,839	374,839
Due from other governmental units	1,337,246	1,149	1,338,395
Prepaid expenses	5,000		5,000
Total assets	<u>\$ 4,157,751</u>	<u>\$ 5,565,205</u>	<u>\$ 9,722,956</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 166,331	\$ 99,708	\$ 266,039
Due to other funds	1,574,539	85,954	1,660,493
Escrow deposits payable	371,019		371,019
Accrued liabilities		5,234	5,234
Deferred revenue		187,561	187,561
Total liabilities	<u>\$ 2,111,889</u>	<u>\$ 378,457</u>	<u>\$ 2,490,346</u>
Fund balances:			
Reserved for:			
Class "C" Roads	\$ 62,446		\$ 62,446
Compensated absences	172,232		172,232
Animal shelter	14,401		14,401
Unreserved, reported in:			
General fund	1,796,783		1,796,783
Special revenue funds		\$ 221,475	221,475
Debt service fund		478,820	478,820
Capital projects fund		4,486,453	4,486,453
Total fund balances	<u>\$ 2,045,862</u>	<u>\$ 5,186,748</u>	<u>\$ 7,232,610</u>
Total liabilities and fund balances	<u>\$ 4,157,751</u>	<u>\$ 5,565,205</u>	<u>\$ 9,722,956</u>

"The notes to the financial statements are an integral part of this statement."

VERNAL CITY CORPORATION
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2006

Total fund balances - governmental fund types: \$ 7,232,610

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Land and easements	\$ 1,236,661	
Water stock	23,195	
Buildings	628,409	
Improvements other than buildings	2,352,796	
Machinery and equipment	719,111	
Automotive equipment	912,452	
Infrastructure	<u>13,042,815</u>	18,915,439

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Bond interest payable	\$ (59,956)	
Revenue bonds payable - current portion	(378,000)	
Revenue bonds payable - one year	(4,760,000)	
Compensated absences	<u>(172,232)</u>	<u>(5,370,188)</u>

Net assets of governmental activities \$ 20,777,861

"The notes to the financial statements are an integral part of this statement."

VERNAL CITY CORPORATION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	GENERAL FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:			
Taxes	\$ 6,737,023		\$ 6,737,023
Licenses and permits	209,913	\$ 161,344	371,257
Intergovernmental	639,472		639,472
Charges for services	963,426		963,426
Fines and forfeitures	519,031		519,031
Investment earnings	99,691	160,530	260,221
Assessment revenues		139,176	139,176
Contributions	34,630		34,630
Miscellaneous revenue	13,019	90,344	103,363
Total revenues	\$ 9,216,205	\$ 551,394	\$ 9,767,599
EXPENDITURES:			
Current:			
General government	\$ 1,631,190		\$ 1,631,190
Public safety	2,301,017	\$ 214,971	2,515,988
Highways and public improvements	1,541,741	17,325	1,559,066
Parks, recreation, and public property	143,632	43,059	186,691
Economic development		16,077	16,077
Intergovernmental expenditures	260,729		260,729
Capital outlay		511,710	511,710
Debt service:			
Principal retirement		300,000	300,000
Interest and fiscal charges		121,266	121,266
Total expenditures	\$ 5,878,309	\$ 1,224,408	\$ 7,102,717
Excess revenues over (under) expenditures	\$ 3,337,896	\$ (673,014)	\$ 2,664,882
OTHER FINANCING SOURCES (USES):			
Transfers in	\$ 29,388	\$ 2,553,549	\$ 2,582,937
Transfers out	(2,506,992)	(29,389)	(2,536,381)
Rents	(203,025)		(203,025)
Total other financing sources (uses)	\$ (2,680,629)	\$ 2,524,160	\$ (156,469)
Excess of revenues and other sources over (under) expenditures and other uses	\$ 657,267	\$ 1,851,146	\$ 2,508,413
FUND BALANCES - beginning of year	1,416,070	3,308,127	4,724,197
Prior period adjustment	(27,475)	27,475	
FUND BALANCES - end of year	\$ 2,045,862	\$ 5,186,748	\$ 7,232,610

"The notes to the financial statements are an integral part of this statement."

VERNAL CITY CORPORATION
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balances - total governmental funds	\$ 2,508,413
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	121,173
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net assets.	(38,049)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	300,000
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(23,204)
Change in net assets of governmental activities	\$ 2,868,333

"The notes to the financial statements are an integral part of this statement."

VERNAL CITY CORPORATION
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006

	<u>BUDGET AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>AMOUNTS</u>	<u>WITH</u>
				<u>FINAL BUDGET</u>
				<u>FAVORABLE</u>
				<u>(UNFAVORABLE)</u>
REVENUES:				
Taxes:				
Property taxes	\$ 224,520	\$ 225,520	\$ 244,189	\$ 18,669
General sales and use tax	4,255,000	5,300,000	5,539,206	239,206
Franchise tax	695,000	603,000	603,950	950
Transient room tax		80,000	89,156	9,156
Tele-Communications tax		235,000	260,123	25,123
Miscellaneous tax	500	500	399	(101)
Licenses and permits	150,200	202,450	209,913	7,463
Intergovernmental	1,336,219	595,090	639,472	44,382
Charges for services	953,393	964,983	963,426	(1,557)
Fines and forfeitures	322,100	508,000	519,031	11,031
Investment earnings	35,900	100,121	99,691	(430)
Contributions	22,500	34,941	34,630	(311)
Miscellaneous revenue	10,000	21,054	13,019	(8,035)
Total revenues	\$ 8,005,332	\$ 8,870,659	\$ 9,216,205	\$ 345,546
EXPENDITURES:				
Current:				
General government:				
Mayor and council	\$ 321,579	\$ 350,670	\$ 326,104	\$ 24,566
City manager	142,313	138,417	136,000	2,417
Finance	307,173	300,687	291,528	9,159
Attorney	101,588	121,888	119,392	2,496
Non-departmental	348,681	341,515	332,380	9,135
Government buildings	112,900	127,392	122,923	4,469
Planning and community development	107,817	113,980	108,985	4,995
Justice court	185,940	197,062	193,878	3,184
Total general government	\$ 1,627,991	\$ 1,691,611	\$ 1,631,190	\$ 60,421
Public safety:				
Police	\$ 1,621,101	\$ 1,699,189	\$ 1,683,190	\$ 15,999
Fire	998,722	306,653	300,698	5,955
Victims advocate	75,680	78,176	76,010	2,166
Animal shelter	235,538	247,949	241,119	6,830
Total public safety	\$ 2,931,041	\$ 2,331,967	\$ 2,301,017	\$ 30,950

"The notes to the financial statements are an integral part of this statement."

VERNAL CITY CORPORATION
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006

	<u>BUDGET AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>AMOUNTS</u>	<u>WITH</u>
				<u>FINAL BUDGET</u>
				<u>FAVORABLE</u>
				<u>(UNFAVORABLE)</u>
Highways and public improvements:				
Streets department	\$ 1,337,817	\$ 1,113,750	\$ 1,035,167	\$ 78,583
Motor pool	167,237	177,976	174,402	3,574
Public works administration and engineering	341,061	341,377	332,172	9,205
Total highways and public improvements	\$ 1,846,115	\$ 1,633,103	\$ 1,541,741	\$ 91,362
Parks, recreation, and public property:				
Parks	\$ 159,521	\$ 153,208	\$ 143,632	\$ 9,576
Total parks, recreation and public property	\$ 159,521	\$ 153,208	\$ 143,632	\$ 9,576
Intergovernmental expenditures:				
Contributions to other governmental units	\$ 177,250	\$ 274,184	\$ 260,729	\$ 13,455
Total intergovernmental expenditures	\$ 177,250	\$ 274,184	\$ 260,729	\$ 13,455
Total expenditures	\$ 6,741,918	\$ 6,084,073	\$ 5,878,309	\$ 205,764
Excess of revenue over (under) expenditures	\$ 1,263,414	\$ 2,786,586	\$ 3,337,896	\$ 551,310
OTHER FINANCING SOURCES (USES):				
Transfers in		\$ 29,388	\$ 29,388	
Transfers out	\$ (1,149,210)	(2,506,992)	(2,506,992)	
Rents		(203,025)	(203,025)	
Total other financing sources (uses)	(1,149,210)	(2,680,629)	(2,680,629)	\$...
Excess of revenues and other sources over (under) expenditures and other uses	\$ 114,204	\$ 105,957	\$ 657,267	\$ 551,310
Fund balances - beginning of year	(114,204)	(105,957)	1,416,070	1,522,027
Prior period adjustment			(27,475)	(27,475)
Fund balances - end of year	\$...	\$...	\$ 2,045,862	\$ 2,045,862

"The notes to the financial statements are an integral part of this statement."

VERNAL CITY CORPORATION
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2006

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			
	UTILITY FUND	MUNICIPAL BUILDING AUTHORITY	NONMAJOR FUND GOLF COURSE	TOTAL
<u>ASSETS</u>				
Current assets:				
Cash	\$ 6,067	\$ 58,345		\$ 64,412
Investments: restricted	162,551	225,477		388,028
Investments at cost	206,476			206,476
Receivables - net				
Utilities	223,569			223,569
Miscellaneous	3,921			3,921
Due from other governmental units	2,714			2,714
Due from other funds	1,114,008		\$ 46,438	1,160,446
Inventory supplies	35,776			35,776
Total current assets	\$ 1,755,082	\$ 283,822	\$ 46,438	\$ 2,085,342
Noncurrent assets:				
Water stock	\$ 54,956			\$ 54,956
Land	7,950	\$ 213,260	\$ 300,711	521,921
Land easements	66,623			66,623
Buildings	67,541	1,741,688	58,299	1,867,528
Improvements	15,682,112	1,880,348	94,663	17,657,123
Machinery and equipment	389,102	155,344	148,665	693,111
Automotive equipment	334,301			334,301
Less: Accumulated depreciation	(5,981,175)	(1,206,383)	(274,945)	(7,462,503)
Investment in joint venture	6,282,305			6,282,305
Total noncurrent assets	\$ 16,903,715	\$ 2,784,257	\$ 327,393	\$ 20,015,365
Total assets	\$ 18,658,797	\$ 3,068,079	\$ 373,831	\$ 22,100,707
<u>LIABILITIES</u>				
Current liabilities:				
Accounts payable	\$ 254,942			\$ 254,942
Utility deposits	15,930			15,930
Accrued liabilities	10,303			10,303
Accrued interest payable	13,080	\$ 22,310		35,390
Due to other governmental units	6,067	84,314		90,381
Current portion - long-term debt	172,269	136,000		308,269
Deferred revenue		5,000		5,000
Total current liabilities	\$ 472,591	\$ 247,624	\$...	\$ 720,215

"The notes to the financial statements are an integral part of this statement."

VERNAL CITY CORPORATION
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2006

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			
	UTILITY FUND	MUNICIPAL BUILDING AUTHORITY	NONMAJOR FUND GOLF COURSE	TOTAL
Noncurrent liabilities:				
Revenue bonds payable	\$ 2,310,908	\$ 951,000		\$ 3,261,908
Total noncurrent liabilities	\$ 2,310,908	\$ 951,000	\$...	\$ 3,261,908
Total liabilities	\$ 2,783,499	\$ 1,198,624	\$...	\$ 3,982,123
Net Assets:				
Invested in capital assets, net of related debt	\$ 14,430,558	\$ 1,674,947	\$ 327,393	\$ 16,432,898
Restricted	133,675			133,675
Unrestricted	1,311,065	194,508	46,438	1,552,011
Total net assets	\$ 15,875,298	\$ 1,869,455	\$ 373,831	\$ 18,118,584

"The notes to the financial statements are an integral part of this statement."

VERNAL CITY CORPORATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2006

	BUSINESS-TYPE ACTIVITIES - ENTERPRISES FUNDS			
	UTILITY FUND	MUNICIPAL BUILDING AUTHORITY	NONMAJOR FUND GOLF COURSE	TOTAL
Operating revenues:				
Charges for sales and services	\$ 3,063,928	\$ 202,144		\$ 3,266,072
Total operating revenues	\$ 3,063,928	\$ 202,144	\$...	\$ 3,266,072
Operating expenses:				
Wages and benefits	\$ 456,740			\$ 456,740
Services and supplies	2,413,384	\$ 8,216		2,421,600
Depreciation	359,365	95,197	\$ 7,648	462,210
Total operating expenses	\$ 3,229,489	\$ 103,413	\$ 7,648	\$ 3,340,550
Operating income (loss)	\$ (165,561)	\$ 98,731	\$ (7,648)	\$ (74,478)
Nonoperating revenues (expenses):				
Interest revenue	\$ 29,078	\$ 9,086		\$ 38,164
Interest expense and fiscal charges	(27,621)	(24,693)		(52,314)
Miscellaneous	5,558			5,558
Grants	7,839			7,839
Transfer AVSMB		49,660		49,660
Impact fees	177,255			177,255
Property taxes	155,520			155,520
Joint venture income (loss)	(129,306)			(129,306)
Total nonoperating revenues (expenses)	\$ 218,323	\$ 34,053	\$...	\$ 252,376
Income (loss) before transfers	\$ 52,762	\$ 132,784	\$ (7,648)	\$ 177,898
Transfers In (Out):				
Transfers	\$ (46,556)			\$ (46,556)
Total transfers in (out):	\$ (46,556)	\$...	\$...	\$ (46,556)
Change in net assets	\$ 6,206	\$ 132,784	\$ (7,648)	\$ 131,342
Total net assets - beginning	15,869,094	1,736,671	381,477	17,987,242
Total net assets - ending	\$ 15,875,300	\$ 1,869,455	\$ 373,829	\$ 18,118,584

"The notes to the financial statements are an integral part of this statement."

**VERNAL CITY CORPORATION
STATEMENT OF CASH FLOWS
PROPERETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2006**

	BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS			
	UTILITY FUND	MUNICIPAL BUILDING AUTHORITY	NONMAJOR FUND GOLF COURSE	TOTAL
Cash Flows From Operating Activities:				
Cash receipts from customers	\$ 3,039,151	\$ 202,144		\$ 3,241,295
Cash payments to suppliers	(2,419,685)	(8,216)		(2,427,901)
Cash payments to employees	(457,088)			(457,088)
Net cash provided (used) by operating activities	\$ 162,378	\$ 193,928	\$...	\$ 356,306
Cash Flows From Noncapital				
Financing Activities:				
Net loans - other funds	\$ (132,603)	\$ (69,610)		\$ (202,213)
Impact fees	177,255			177,255
Transfer from other governmental units	7,710	49,709		57,419
Property taxes	155,520			155,520
Transfer (to) from other funds	(46,556)			(46,556)
Deposit returns	(600)			(600)
Net cash provided (used) by noncapital financing activities	\$ 160,726	\$ (19,901)	\$...	\$ 140,825
Cash Flows From Capital and Related				
Financing Activities:				
Acquisition of capital assets	\$ (723,856)			\$ (723,856)
Interest paid on revenue bonds	(21,393)	\$ (28,693)		(50,086)
Principal paid on revenue bonds	(182,688)	(214,000)		(396,688)
Transfer from AVWSD		49,660		49,660
Grants received	7,839			7,839
Miscellaneous	5,558			5,558
Net cash provided (used) by capital and related financing activities	\$ (914,540)	\$ (193,033)	\$...	\$ (1,107,573)
Cash Flows From Investing Activities:				
Interest and dividends received	\$ 29,078	\$ 9,086		\$ 38,164
Net cash provided (used) by investing activities	\$ 29,078	\$ 9,086	\$...	\$ 38,164
Net increase (decrease) in cash and cash equivalents	\$ (562,358)	\$ (9,920)	\$...	\$ (572,278)
Cash and cash equivalents, July 1	937,452	293,742		1,231,194
Cash and cash equivalents, June 30	\$ 375,094	\$ 283,822	\$...	\$ 658,916

"The notes to the financial statements are an integral part of this statement."

**VERNAL CITY CORPORATION
STATEMENT OF CASH FLOWS
PROPERETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2006**

	BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS			
	UTILITY FUND	MUNICIPAL BUILDING AUTHORITY	NONMAJOR FUND GOLF COURSE	TOTAL
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating income (loss)	\$ (165,561)	\$ 98,731	\$ (7,648)	\$ (74,478)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation expense	\$ 359,365	\$ 95,197	\$ 7,648	\$ 462,210
Increase (Decrease) in utility receivables	(27,024)			(27,024)
Increase (Decrease) in miscellaneous receivables	2,247			2,247
Increase (Decrease) in accounts payable	(6,301)			(6,301)
Increase (Decrease) in accrued liabilities	(348)			(348)
Total adjustments	\$ 327,939	\$ 95,197	\$ 7,648	\$ 430,784
Net cash provided (used) by operating activities	\$ 162,378	\$ 193,928	\$...	\$ 356,306

"The notes to the financial statements are an integral part of this statement."

VERNAL CITY CORPORATION
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2006

	<u>PAYROLL FUND</u>	<u>TRUST AND AGENCY</u>
<u>ASSETS</u>		
Cash and cash equivalents		\$ 17,311
Accounts receivable		
Due from other funds	<u>\$ 125,370</u>	
Total assets	<u>\$ 125,370</u>	<u>\$ 17,311</u>
<u>LIABILITIES</u>		
Accrued liabilities	\$ 125,370	
Due to other funds		\$ 162
Due to other governmental agency		<u>17,149</u>
Total liabilities	<u>\$ 125,370</u>	<u>\$ 17,311</u>
<u>NET ASSETS</u>		
Held in trust	<u>\$...</u>	<u>\$...</u>

"The notes to the financial statements are an integral part of this statement."

VERNAL CITY CORPORATION
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	<u>PAYROLL FUND</u>	<u>TRUST AND AGENCY</u>
ADDITIONS:		
Payroll withholdings and deductions	\$ 581,987	\$ 47,631
Court receipts		92,191
Miscellaneous		550
	<u>581,987</u>	<u>140,372</u>
Total additions	\$ 581,987	\$ 140,372
DEDUCTIONS:		
Payments to other governments	\$ 613,134	\$ 48,595
Court funds disbursed		81,798
Miscellaneous		239
	<u>613,134</u>	<u>130,632</u>
Total deductions	\$ 613,134	\$ 130,632
Change in net assets	\$ (31,147)	\$ 9,740
Net assets - Beginning of year	<u>156,517</u>	<u>7,571</u>
Net assets - End of year	<u>\$ 125,370</u>	<u>\$ 17,311</u>

"The notes to the financial statements are an integral part of this statement."

**VERNAL CITY CORPORATION
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES

The financial statements of the Vernal City Corporation has been prepared in conformity with accounting principles generally accepted in the United States of America (GASB) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the City are described below.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis- for State and Local Governments. Certain significant changes in the Statement include the following: 1) For the first time, the financial statements include a Management's Discussion and Analysis (MD&A) providing an analysis of the City's overall financial position and results of operations. Financial statements prepared using full-accrual accounting for all of the City's activities. 2) A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements).

A. Reporting Entity

Vernal City Corporation is a municipal corporation governed by an elected mayor and five-member council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended Component Units, although legally separate entities, are in substance part of the government's operations.

Blended component unit. The Municipal Building Authority of Vernal City is included in this report as the Municipal Building Authority (MBA), an enterprise fund, which is a component unit blended in the City's financial statements. Although the MBA is clearly established as a separate entity under state law, it is included due to financial accountability and the extensive oversight provided by the City. Members of the City Council serve as the Board of Directors of the MBA.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of inter-fund activity has been removed from these statements. Government activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (Continued)**

B. **Government-Wide and Fund Financial Statements (Continued)**

The statement of activities demonstrates the degree to which the direct expense of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment- program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirement of a particular function

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (Continued)**

C. **Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)**

The government reports the following major governmental funds:

The general fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those that are required to be accounted for in another fund.

The government reports the following major proprietary funds:

The Water, Sewer & Solid Waste Utility Fund accounts for the operation of and maintenance of the City water distribution system, sewage collection system and residential solid waste collection.

The MBA (Municipal Building Authority) Fund accounts for the revenues & expenses used for the construction and debt service of a Golf Course, several municipal buildings as well as streets & roads within the City.

Additionally, the government reports the following fund types:

- 1) The Vernal City Trust & Agency Fund (a fiduciary fund) accounts for the Vernal City Justice Court Trust Account, The Vernal City Employees Sec 125 Medical Reimbursement Plan Trust Account and the Friends of the Museum Trust Account.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of inter-fund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer and sold waste function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Proprietary funds distinguish operating revenues and expense from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water, Sewer and Solid Waste Fund, are charges to customers for sales and services. Operating expenses for enterprise funds include wages and benefits, operating maintenance cost, depreciation and other general and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to first use restricted resources and then unrestricted resources, as they are needed.

D. Budgetary Data

Budgets are presented on the modified accrual basis of accounting for all governmental funds and on the accrual basis for proprietary funds. Budgets are not adopted for the Vernal City Trust and Agency Fund. All annual appropriations lapse at fiscal year end. The following procedures are used in establishing the budgetary data reflected in the financial statements.

1. In January of each year, each department of the City prepares requests for capital equipment and capital projects and operating supplies as well as requests for changes in personnel to the City Manager. During April, all department requests are then presented for review to a budget committee made up of two members of the City Council assigned to that particular department, the City Manager, the Finance Director. The committee recommended budgets are then presented to the Mayor and City Council as the Tentative Budget on the first city council meeting in May. During May the Mayor and City Council review the tentative budget with the Department Heads, prepare a final operating budget for the next fiscal year including the means of financing that budget.
2. Copies of the proposed budget are made available for public inspection and by review of the citizens of the city.
3. If the City does not exceed the certified tax rate, a public hearing is held prior to June 22 at which the budget is legally adopted by resolution of the City Council after obtaining taxpayer input. If the City exceeds the certified tax rate, the budget is adopted in August when data is available to set the rates.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (Continued)**

4. Once adopted, the budget can be amended by subsequent city council action. The city council upon recommendations can approve reductions in appropriations, but increases in appropriations by fund require a public hearing prior to amending the budget. In accordance with Utah State law, interim adjustments may be made by the administrative transfer of money from one appropriation to another within any given fund.
5. Minor interim adjustments in estimated revenue and appropriations during the year ended June 30, 2006 have been included in the final budget approved by the city council, as presented in the financial statements.
6. Expenditures may not legally exceed budgeted appropriations at the fund level.

E. Deposits and Investments

The city's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition, including investments in the Public Treasurers' Investment Fund (PTIF).

F. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

G. Inventories

All inventories are valued at cost using the first-in-first-out method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

H. Capital Assets

Capital assets, which include land, water stock, buildings and improvements, and furniture and equipment, and infrastructure assets (e.g., roads, curb, gutter, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The government defines Capital Assets as assets with an initial individual cost of \$5,000 or more and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (Continued)**

H. **Capital Assets (Continued)**

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction is not capitalized.

Buildings, improvements, furniture and equipment and infrastructure assets of the City are depreciated using the straight-line method over the following estimated lives:

<u>Assets</u>	<u>Years</u>
Buildings	10-50
Improvements	10-40
Office equipment	5-20
Machinery and equipment	5-10
Automotive equipment	5-20

I. **Compensated Absences**

Under terms of the Vernal City Personnel Policy, all regular full-time and probationary employees, upon completion of one (1) year of continuous service, shall be eligible to take vacation leave. Employees earn vacation and sick leave in amounts varying with tenure and classification. In the event of termination or death, an employee is reimbursed for accumulated vacation days to a maximum of 240 hours. No reimbursement or accrual is made for unused sick leave. Employees also can accumulate comp time hours. Employees are paid for unused comp time if they are terminated or retire.

All vacation and comp time pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds as they are incurred.

J. **Long-Term Obligations**

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

K. **Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation, or, are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

2. DEPOSITS AND INVESTMENTS

Deposits and investing for Vernal City and its blended component unit is governed by the Utah Money Management Act (Utah Code, Title 51, Chapter 7) and rules of the State of Utah Money Management Council.

The City follows the requirements of the Utah Money Management Act (Utah Code, Section 51, Chapter 7) in handling its depository and investment transactions. The Act requires the depositing of City funds in a qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

Deposits

Vernal City maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the fund financial statements as cash and investments. Income from the investment of pooled cash is allocated based on each fund's portion of the pool. In addition, cash is separately held by individual funds.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a formal deposit policy for custodial credit risk. At June 30, 2006, the City's bank balance of cash on deposit was \$640,208 of this amount \$206,067 was insured. But \$434,141 of the deposits are uninsured and uncollateralized.

Investments

The Money Management Act defines the types of securities authorized as appropriate investments for the City and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

Statutes authorize Vernal City to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investors Services or Standard & Poor's; bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund.

2. DEPOSITS AND INVESTMENTS (Continued)

The Utah State Treasurer's Office operates the Public Treasurer's Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer. The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, and Utah Code Annotated, 1953, as amended. The Act established the Money Management Council, which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses – net of administration fees, of the PTIF are allocated based upon the participant's average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

As of June 30, 2006, Vernal City had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1-5	6-10	More than 10
State of Utah Public Treasurer's Investment Fund	\$ 7,864,812	\$ 7,864,812			
Total Investments	\$ 7,864,812	\$ 7,864,812	\$...	\$...	\$...

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City manages this risk in part by investing in the Utah Public Treasurers Investment Fund. The City also manages its exposure to fair value loss arising from increasing interest rates by complying with the State's Money Management Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity on all investments in commercial paper, bankers' acceptance, fixed rate negotiable deposits, and fixed rate corporate obligations to 270-365 days or less. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding 2 years.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Vernal City has not adopted a formal policy with regards to credit risk on investments but the City informally follows the policy for reducing its exposure to credit risk by complying with the State's Money Management Act as previously discussed.

2. **DEPOSITS AND INVESTMENTS (Continued)**

At June 30, 2006, Vernal City had the following investments and quality ratings:

<u>Investment Type</u>	<u>Fair Value</u>	<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>Unrated</u>
State of Utah Public Treasurer's Investment Fund	<u>\$ 7,864,812</u>				<u>\$ 7,864,812</u>
Total	<u>\$ 7,864,812</u>	<u>\$...</u>	<u>\$...</u>	<u>\$...</u>	<u>\$ 7,864,812</u>

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City informal policy for reducing this risk of loss is to comply with the Rules of the Money Management Council. No more than 5% of all funds may be invested in securities of a corporation that has been in continuous operation for less than three years. No more than 5% of the outstanding voting securities of any one corporation may be held. In addition, Rule 2 limits investment concentrations in certain types of investments. Rule 17 of the Money Management Council limits investments in a single issuer of commercial paper and corporate obligations to 5-10% depending upon the total dollar amount held in the portfolio.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a formal policy for custodial credit risk. As of June 30, 2006, the City had \$7,864,812 invested in the Public Treasurer's Investment Fund and was held by them.

3. **RESTRICTED CASH**

In connection with bond agreements between Vernal City and Utah Permanent Community Impact Fund Board, Utah Board of Water Resources and Utah Drinking Water Board, the City has agreed to set aside money into sinking funds and a reserve accounts. These funds are to assure that adequate money is available to service debt payments as they come due. The amount to be set aside into the sinking fund is established by each individual bond document. This amount is to be added to the sinking fund on an annual basis until an amount equal to the annual payment of principal and interest is set aside.

3. **RESTRICTED CASH (Continued)**

In prior years, the City also issued other bonds requiring bond sinking funds and bond reserve funds. Actual payments into these sinking and reserve funds are deposited annually until reserves are equal to that required by the individual bond document. These reserved amounts are shown below along with other restricted funds.

Business-type Activities - Enterprise Funds

Utility fund	\$ 162,551
Municipal Building Authority	225,477

Special Revenue Funds

Narcotics Strike Force	\$ 284,874
------------------------	------------

Debt Service Fund

Bond guarantee	\$ 277,552
----------------	------------

Capital Projects

Street Construction	\$ 205,152
---------------------	------------

4. **PROPERTY TAXES**

The property tax revenue of the City is collected and distributed by the Uintah County Treasurer as an agent of the City. Utah statutes establish the process by which taxes are levied and collected. The county assessor is required to assess real property as of January and complete the tax rolls by May 15. By July 21, the county auditor is to mail assessed value and tax notices to property owners. A taxpayer may then petition the County Board of Equalization between August 1 and August 15 for a revision of the assessed value. The county auditor makes approved changes in assessed value by November 1 and on this same date the county auditor is to deliver the completed assessment rolls to the county treasurer. Tax notices are mailed with a due date of November 30. Delinquent taxes are subject to a 2% penalty, with a \$10 minimum penalty. If delinquent taxes and penalties are not paid by January 15 of the following year, these delinquent taxes, including penalties, are subject to an interest charge at an annual rate equal to the federal discount rate plus 6%; the interest period is from January 1 until date paid. It is expected that all delinquencies plus accrued interest and penalties will be collected within a five-year period, during which time, the county treasurer may force the sale of property to collect the delinquent portion. Only the portion of property taxes receivable that meets the revenue recognition criteria is reported as revenue in the fund financial statements.

4. **PROPERTY TAXES (Continued)**

Beginning January 1, 1992, there was levied in lieu of the ad valorem tax, an annual uniform fee based on the value of motor vehicles. The uniform fee was 1.5% of the fair market statewide value of the property, as established by the State Tax Commission. On January 1, 1999, legislation became effective which made motor vehicles weighing 12,000 pounds or less subject to an "age-based" fee that is due each time the vehicle is registered. The revenues collected in each county from the uniform fee is distributed by the county to each taxing entity in which the property is located in the same proportion in which revenue collected from ad valorem real property tax is distributed. The City recognizes age-based fee as revenue when the County collects it.

5. **CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Primary Government				
Governmental activities:				
Capital assets not being depreciated:				
Land and easements	\$ 1,236,661			\$ 1,236,661
Water stock	<u>23,195</u>			<u>23,195</u>
Total capital assets not being depreciated	<u>\$ 1,259,856</u>	<u>\$...</u>	<u>\$...</u>	<u>\$ 1,259,856</u>
Capital assets being depreciated:				
Buildings	\$ 922,977			\$ 922,977
Improvements other than buildings	2,606,945	\$ 95,394		2,702,339
Machinery and equipment	1,617,287	140,374	\$ 118,853	1,638,808
Automotive equipment	1,826,895	257,870	85,177	1,999,588
Infrastructure	<u>16,023,096</u>	<u>483,777</u>		<u>16,506,873</u>
Total capital assets being depreciated:	<u>\$ 22,997,200</u>	<u>\$ 977,415</u>	<u>\$ 204,030</u>	<u>\$ 23,770,585</u>

5. **CAPITAL ASSETS (Continued)**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Primary Government				
Governmental activities:				
Less accumulated depreciation for:				
Buildings	\$ 264,013	\$ 30,555		\$ 294,568
Improvements other than buildings	256,612	92,931		349,543
Machinery and equipment	934,310	94,627	\$ 109,240	919,697
Automotive equipment	1,041,177	102,700	56,741	1,087,136
Infrastructure	2,928,629	535,429		3,464,058
 Total accumulated depreciation	<u>\$ 5,424,741</u>	<u>\$ 856,242</u>	<u>\$ 165,981</u>	<u>\$ 6,115,002</u>
 Total capital assets being depreciated, net	<u>\$ 17,572,459</u>	<u>\$ 121,173</u>	<u>\$ 38,049</u>	<u>\$ 17,731,681</u>
 Governmental activities capital assets, net	<u>\$ 18,832,315</u>	<u>\$ 121,173</u>	<u>\$ 38,049</u>	<u>\$ 18,991,537</u>

5. **CAPITAL ASSETS (Continued)**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type Activities:				
Capital assets not being depreciated:				
Land and easements	\$ 588,544			\$ 588,544
Water stock	54,956			54,956
Total capital assets not being depreciated	<u>\$ 643,500</u>	<u>\$...</u>	<u>\$...</u>	<u>\$ 643,500</u>
Capital assets being depreciated:				
Buildings	\$ 1,867,528			\$ 1,867,528
Improvement other than buildings	17,058,461	\$ 607,604	\$ 8,942	17,657,123
Machinery and equipment	579,654	123,601	10,144	693,111
Automotive equipment	501,800		167,499	334,301
Total capital assets being depreciated	<u>\$ 20,007,443</u>	<u>\$ 731,205</u>	<u>\$ 186,585</u>	<u>\$ 20,552,063</u>
Less accumulated depreciation for:				
Buildings	\$ 620,917	\$ 58,259		\$ 679,176
Improvements other than buildings	5,784,075	350,906	\$ 1,609	6,133,372
Machinery and equipment	507,117	13,921	10,146	510,892
Automotive equipment	267,440	39,123	167,500	139,063
Total accumulated depreciation	<u>\$ 7,179,549</u>	<u>\$ 462,209</u>	<u>\$ 179,255</u>	<u>\$ 7,462,503</u>
Total capital assets being depreciated, net	<u>\$ 12,827,894</u>	<u>\$ 268,996</u>	<u>\$ 7,330</u>	<u>\$ 13,089,560</u>
Business-type activities capital assets, net	<u>\$ 13,471,394</u>	<u>\$ 268,996</u>	<u>\$ 7,330</u>	<u>\$ 13,733,060</u>

5. **CAPITAL ASSETS (Continued)**

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:

General government	\$ 38,910
Public safety	85,904
Highways and public improvements	636,380
Parks and recreation	<u>95,048</u>

Total depreciation expense -
governmental activities

\$ 856,242

Business-type Activities:

Utility	\$ 359,365
Golf Course	7,648
Municipal Building Authority	<u>95,197</u>

Total depreciation expense -
business-type activities

\$ 462,210

Total depreciation expense

\$1,318,452

6. **PENSION PLANS**

At June 30, 2006, Vernal City Corporation was participating in the following retirement plans:

Utah State Retirement Systems

Vernal City Corporation contributes to the Local Governmental Contributory Retirement System and Local Governmental Noncontributory Retirement System, Public Safety Retirement System for employers with Social Security coverage, all of which are cost-sharing multiple-employer, defined benefit pension plans administered by the Utah Retirement Systems (Systems). Utah Retirement Systems provide refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

6. PENSION PLANS (Continued)

Utah State Retirement Systems (Continued)

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Local Governmental Contributory Retirement System, Local Governmental Noncontributory Retirement System, Public Safety Retirement System for employers with Social Security coverage. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, Utah 84102 or by calling 1 800-365-8772.

Plan members in the Local Governmental Contributory Retirement System are required to contribute 6.00% of their manual covered salary (all or part may be paid by the employer for the employee) and Vernal City is required to contribute 7.08% of their annual covered salary. In the Local Governmental Noncontributory Retirement System, Vernal City is required to contribute 11.09% of their annual covered salary. In the Public Safety Noncontributory Retirement System, Vernal City is required to contribute 19.34% of members' salaries. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

The Vernal City contributions to the Local Governmental Contributory Retirement System for the years ending June 30, 2006, 2005 and 2004 were \$31,414, \$29,942 and \$25,269 respectively and for the Noncontributory Retirement System the contributions for June 30, 2006, 2005 and 2004 were \$140,767, \$120,962 and \$100,708 respectively and for the Public Safety Noncontributory Retirement System contributions for June 30, 2006, 2005, and 2004 were \$140,943, \$116,870, and \$97,554 respectively. The contributions were equal to the required contributions for each year.

The City also sponsors defined contribution retirement plans under Internal Revenue Code 401(k) and 457, which is administered by the Utah Retirement Systems. The plans cover all City employees who participate in the retirement plans. Participants are fully vested in employer and employee contributions.

6. **PENSION PLANS (Continued)**

Other Retirement Plans

In addition to the state retirement plan, the City participates in another defined contribution plan with ICMA Retirement Corporation.

The City's total retirement contribution per permanent employee is 17.9% of gross pay regardless of plan mix. Vernal City contributions on behalf of employees to the Sec 401A plan are considered small relative to all contributions received by these large multiple employer plans. The percentage is not available. All required City contributions for the fiscal year were on deposit within 30 days after June 30, 2006.

The ICMA plan simply pays out employee-accumulated balances plus interest on an employee elected alternative basis at age 65, or sooner, based on the following vested schedule:

Completed Years of Credited Service With Vernal City (1,000 Hours <u>Minimum Required Per Year</u>)	<u>Vested Percentage</u>
Less than 1 year	None
1 year	50%
2 years	60%
3 years	70%
4 years	80%
5 years	90%
6 or more years	100%

The City also offers, through ICMA Retirement Corporation, to its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all full-time employees, permits them to defer a portion of their salary until future years. Employees are eligible to voluntarily participate from the date of employment and are vested immediately upon participating.

6. **PENSION PLANS (Continued)**

A summary of plan activity for the year ended June 30, 2006 is set forth below:

ICMA RETIREMENT CORPORATION

	<u>401 Plan</u>	<u>457 Plan</u>
Total value of plan assets at June 30, 2005	<u>\$ 1,833,084</u>	<u>\$ 83,153</u>
Current Activity:		
Employer contributions	\$ 182,123	
Employee contributions		\$ 15,079
Earnings (loss)	118,725	5,884
Expenses	(1,569)	
Distributions	<u>(102,714)</u>	<u>(26,265)</u>
Total current activity	<u>\$ 196,565</u>	<u>\$ (5,302)</u>
Total value of plan assets at June 30, 2006	<u><u>\$ 2,029,649</u></u>	<u><u>\$ 77,851</u></u>

7. **LONG-TERM DEBT**

Annual debt service requirements to maturity for revenue bonds are as follows:

Year Ending June 30,	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 255,000	\$ 68,775	\$ 323,775	\$ 308,269	\$ 56,531	\$ 364,800
2008	312,000	79,364	391,364	335,000	54,692	389,692
2009	365,000	102,721	467,721	314,000	48,658	362,658
2010	373,000	93,686	466,686	261,000	43,305	304,305
2011	375,000	84,427	459,427	226,000	39,267	265,267
2012-2016	1,740,000	288,655	2,028,655	1,074,000	148,108	1,222,108
2017-2021	1,108,000	139,575	1,247,575	617,908	62,726	680,634
2022-2026	461,000	52,225	513,225	434,000	18,300	452,300
2027-2029	149,000	5,600	154,600			
Total	<u>\$ 5,138,000</u>	<u>\$ 915,028</u>	<u>\$ 6,053,028</u>	<u>\$ 3,570,177</u>	<u>\$ 471,587</u>	<u>\$ 4,041,764</u>

7. **LONG-TERM DEBT (Continued)**

Long-term liability activity for the year ended June 30, 2006, was as follows:

	Beginning Balance 07-01-05	Additions	Reductions	Ending Balance 06-30-06	Due Within One Year
Governmental activities:					
Interim warrants					
Bonds payable:					
Revenue bonds CIB	\$ 5,011,000		\$ (251,000)	\$ 4,760,000	\$ 255,000
Special assessment bonds	427,000		(49,000)	378,000	50,000
Capital leases					
Loan payable					
Compensated absences	150,952	\$ 21,280		172,232	
Governmental activity long-term liabilities	\$ 5,588,952	\$ 21,280	\$ (300,000)	\$ 5,310,232	\$ 305,000
Business-type activities:					
Bonds payable:					
Utility Fund:					
Revenue bonds CIB	\$ 1,877,845		\$ (123,668)	\$ 1,754,177	\$ 111,269
Revenue bonds BOWR	429,000		(42,000)	387,000	43,000
Revenue bonds DWB	225,000		(12,000)	213,000	12,000
Revenue bonds WQB	134,000		(5,000)	129,000	6,000
MBA Fund:					
Revenue bonds CIB	1,301,000		(214,000)	1,087,000	136,000
Business-type activity long-term liabilities	\$ 3,966,845	\$...	\$ (396,668)	\$ 3,570,177	\$ 308,269

Revenue Bonds - Revenue bonds payable at June 30, 2006, with their outstanding balances are Comprised of the following individual issues:

Governmental Activities:

\$2,126,000 Limited Obligation Sales Tax Highway Bonds, Series 1999, due in annual principal installments of \$119,000 to \$167,000, beginning September 1, 1998 through September 1, 2014. interest 2.50% per annum. \$1,367,000

\$1,200,000 Vernal City, Uintah County, Utah Limited Obligation Sale Tax Highway Bonds, Series 2003, due in annual principal installments of \$46,976 To \$75, 102, beginning September 1, 2008 through September 1, 2027, interest 2.50% per annum. \$1,200,000

7. **LONG-TERM DEBT (Continued)**

\$1,000,000 Vernal City, Limited Obligation Sales Tax Highway Bond, Series 2001A, due in annual principal installments of \$42,000 to \$119,000, beginning September 1, 2003 through September 1, 2020, interest 2.50% per annum.	\$ 871,000
\$1,000,000 Vernal City, Taxable Limited Obligation Sales Tax Bond, Series 2001B, due in annual principal installments of \$52,000 to \$100,000, beginning September 1, 2003 through September 1, 2020, interest 2.50% per annum.	\$ 842,000
\$140,000 Special Assessment Bond, Series 2000 District No. 99-01, due in annual principal installments of \$10,000 to \$15,000, beginning June 1, 2001 through June 1, 2010, interest 5.60% per annum.	\$ 55,000
\$500,000 Vernal City, Sales Tax Revenue Bond, Series 2003, due in annual principal installments of \$20,000 to \$31,000, beginning September 1, 2005 through September 1, 2024, interest 2.50% per annum.	\$ 480,000
\$389,000 Vernal City, Special Assessment Bond, Series 2003, due in annual principal installments of \$32,000 to \$46,000, beginning February 1, 2005 through February 1, 2014, interest 2.25% per annum.	\$ 323,000
TOTAL	<u>\$5,138,000</u>

Business-type Activities:

\$700,000 Municipal Building Authority of Vernal City, Utah, Golf Course Bond, Series 1991, due in annual principal installments of \$25,000 to \$94,000, Beginning July 1, 1997 through July 1, 2015, interest 3.50% per annum	\$ 443,000
\$550,000 Municipal Building Authority of Vernal City, Utah, Fire Station Bond, Series 1990, due in annual principal installments of \$27,000 to \$28,000, beginning November 1, 1992 through November 1, 2011, non-interest bearing.	\$ 168,000
\$500,000 Municipal Building Authority of Vernal City, Utah, Lease Revenue Bond, Series 1997, due in annual principal installments of \$45,000 to \$56,000, Beginning January 1, 1999 through January 1, 2008, interest 2.50% per annum.	\$ 110,000
\$250,000 Municipal Building Authority of Vernal City, Utah, Lease Revenue Bond, Series 1996, due in annual principal installments of \$22,000 to \$28,000, Beginning July 1, 1998 through July 1, 2007, interest 3.00% per annum.	\$ 56,000
\$350,000 Municipal Building Authority of Vernal City, Utah, Lease Revenue Bond, Series 1998, due in annual principal installments of \$31,000 to \$39,000 Beginning July 1, 2000 through July 1, 2009, interest 2.50% per annum.	\$ 150,000

7. **LONG-TERM DEBT (Continued)**

\$200,000 Municipal Building Authority of Vernal City, Utah, Taxable Lease Revenue Bond, Series 2001, due in annual principal installments of \$10,000, Beginning September 1, 2002 through September 1, 2011, non-interest bearing.	\$ 160,000
\$848,710 Water Revenue Refunding Bond, Series 1995, due in annual principal installments of \$41,710 to \$43,000 beginning March 1, 1996 through March 1, 2015 non-interest bearing.	\$ 387,000
\$404,200 Water Revenue Bond due in annual principal installments of \$12,884 to \$29,735, beginning January 1, 1988 through January 1, 2007, non interest bearing.	\$ 29,735
\$270,000 Vernal City Water Revenue Bond, Series 2000, due in annual principal installments of \$11,000 to \$17,000, beginning March 1, 2002 through March 1, 2021, interest rate 2.18 per annum.	\$ 213,000
\$293,000 Vernal City Water Revenue Bond, Series 2000A, due in annual installments of \$16,000 to \$23,000, beginning March 1, 2006 through March 1, 2020, interest rate 2.50% per annum.	\$ 252,908
\$144,000 Vernal City, Uintah County Utah Sewer Revenue Bond, Series 2002A, due in annual principal installments of \$5,000 to \$10,000, Beginning December 1, 2002 through December 1, 2022, interest rate 3.5% per annum.	\$ 129,000
\$691,000 Vernal City, Uintah County Utah Taxable Sewer Revenue Bond, series 2002B, due in annual principal installments of \$34,000 to \$36,000, beginning December 1, 2006 through December 1, 2025, non-interest bearing.	\$ 691,000
\$780,534 Vernal City, Uintah County, Utah Water Revenue Bond, Series 2002, due in annual principal installments of \$30,534 to \$46,000, beginning March 1, 2007 through March 1, 2026, interest rate 2.50% per annum.	\$ 780,534
TOTAL	<u>\$3,570,177</u>

8. **CONTINGENT LIABILITIES**

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the state and federal governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

Vernal City Corporation has several pending lawsuits and notice of claims filed by different individuals and entities. The information presented by attorneys indicated that most of the outcomes of lawsuits are undeterminable at the date of audit, but the City is aggressively fighting these claims.

9. **PROPERTY TAX CALENDAR**

The City adopts, by June 22, the proposed tax rates as part of its budget for the current year, which begins July 1. If the proposed rates exceed a certified tax rate, a special public hearing must be held before the final rate is adopted. The final tax rate is assessed by the county assessor on property in the County as of July 1. The taxes are payable to the City treasurer by the end of November and are remitted to the City by the county treasurer as collected.

10. **SEGMENT INFORMATION**

All Enterprise Funds as presented in the financial statements are comprised of the Utility Fund, Golf Fund, and Municipal Building Authority. The Utility Fund accounts for the activities involved with providing water, sewer and refuse collection services. The Golf Fund has very limited transactions and basically owns assets involved with the operation of the golf course. The Golf Course is operated by another governmental organization. The Municipal Building Authority owns and rents real estate. Segment information for each fund is presented below:

CONDENSED STATEMENT OF NET ASSETS

	Utility Fund	Municipal Building Authority	Golf Course
Assets:			
Current assets	\$ 1,755,082	\$ 283,822	\$ 46,438
Capital assets	16,903,715	2,784,257	327,393
Total assets	<u>\$ 18,658,797</u>	<u>\$ 3,068,079</u>	<u>\$ 373,831</u>
Liabilities:			
Current liabilities	\$ 472,591	\$ 247,624	
Noncurrent liabilities	2,310,908	951,000	
Total liabilities	<u>\$ 2,783,499</u>	<u>\$ 1,198,624</u>	<u>\$...</u>
Net Assets:			
Invested in capital assets, net of related debt	\$ 14,430,558	\$ 1,674,947	\$ 327,393
Restricted	133,675		
Unrestricted	1,311,065	194,508	46,438
Total net assets	<u>\$ 15,875,298</u>	<u>\$ 1,869,455</u>	<u>\$ 373,831</u>

10. **SEGMENT INFORMATION (Continued)**

**CONDENSED STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS**

	<u>Utility Fund</u>	<u>Municipal Building Authority</u>	<u>Golf Course</u>
Operating revenues	\$ 3,063,928	\$ 202,144	
Depreciation expense	(359,365)	(95,197)	\$ (7,648)
Other operating expenses	(2,870,124)	(8,216)	
Operating income	<u>\$ (165,561)</u>	<u>\$ 98,731</u>	<u>\$ (7,648)</u>
Nonoperating revenue (expenses):			
Property taxes	\$ 155,520		
Investment earnings	29,078	\$ 9,086	
Impact fees	177,255		
Interest expense and fiscal charges	(27,621)	(24,693)	
Grants	7,839		
Miscellaneous	5,558		
AVWSD		49,660	
Joint venture income (loss)	(129,306)		
Total nonoperating revenue (expenes)	<u>\$ 218,323</u>	<u>\$ 34,053</u>	<u>\$...</u>
Income (loss) before transfers	<u>\$ 52,762</u>	<u>\$ 132,784</u>	<u>\$ (7,648)</u>
Transfers in (out):			
Transfers	<u>\$ (46,556)</u>		
Total transfers	<u>\$ (46,556)</u>	<u>\$...</u>	<u>\$...</u>
Change in net assets	\$ 6,206	\$ 132,784	\$ (7,648)
Beginning net assets	<u>15,869,094</u>	<u>1,736,671</u>	<u>381,477</u>
Ending net assets	<u><u>\$ 15,875,300</u></u>	<u><u>\$ 1,869,455</u></u>	<u><u>\$ 373,829</u></u>

10. **SEGMENT INFORMATION (Continued)**

CONDENSED STATEMENT OF CASH FLOWS

	Utility Fund	Municipal Building Authority	Golf Course
Net cash provided (used) by:			
Operating activities	\$ 162,378	\$ 193,928	
Noncapital financing activities	160,726	(19,901)	
Capital and related financing activities	(914,540)	(193,033)	
Investing activities	29,078	9,086	
Net increase (decrease)	\$ (562,358)	\$ (9,920)	\$...
Beginning cash and cash equivalents	937,452	293,742	
Ending cash and cash equivalents	<u>\$ 375,094</u>	<u>\$ 283,822</u>	<u>\$...</u>

OTHER FINANCIAL DATA

	Utility Fund	Municipal Building Authority	Golf Course
Operating revenues:			
Charges for services	\$ 3,063,928	\$ 202,144	
Depreciation expense	359,365	95,197	\$ 7,648
Operating income (loss)	(165,561)	9,873	(7,648)
Operating transfers in			
Operating transfers out	(46,556)		
Change in net assets	6,206	132,784	(7,648)
Property, plant, and equipment:			
Additions	731,205		
Deletions	186,585		
Net working capital	1,282,491	36,198	46,438
Total assets	18,658,797	3,068,079	373,831
Bonds payable	2,483,177	1,087,000	
Total net assets	15,875,298	1,869,455	373,831

11. **RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City pays an annual premium to Utah Local Governments Trust for its health insurance coverage, general liability and property coverage. At June 30, 2006, the City had no claims or judgments filed against it related to the risks mentioned above.

12. **RECEIVABLES**

Receivables as of year-end for the government's individual funds including the applicable allowances for uncollectible accounts are as follows:

	<u>General Fund</u>	<u>Utility Fund</u>	<u>Non- Major Funds</u>	<u>Total</u>
Receivables:				
Miscellaneous		\$ 3,921		\$ 3,921
Assessment			\$ 201,673	201,673
Accounts	\$ 92,341	228,525	2,073	322,939
Due from other governments	<u>1,337,246</u>	<u>2,714</u>	<u>1,149</u>	<u>1,341,109</u>
Gross receivables	\$ 1,429,587	\$ 235,160	\$ 204,895	\$ 1,869,642
Less: allowance for uncollectibles	<u> </u>	<u>(4,956)</u>	<u> </u>	<u>(4,956)</u>
Net receivables	<u>\$ 1,429,587</u>	<u>\$ 230,204</u>	<u>\$ 204,895</u>	<u>\$ 1,864,686</u>

13. **INTERFUND BALANCE AND TRANSFERS**

Internal Balances - Included in internal balances on the financial statements are individual fund receivables and payable balances at June 30, 2006 as follows:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
Emergency 911		\$ 67,895
Debt Service	\$ 187,156	
Trust & Agency	125,370	162
General		1,574,539
Street Construction		13,232
City Park Green Space	253	
City Wide SID	93,319	
UCVC Interlocal	7,300	
Municipal Building Project	198	
Utility Fund	1,114,008	
Golf Course	46,438	
City Storm Drain	39,133	
Education Development	47,480	
Housing Rehab.		4,827
Totals	<u>\$ 1,660,655</u>	<u>\$ 1,660,655</u>

13. **INTERFUND BALANCE AND TRANSFERS (Continued)**

Transfers- The following table provides a reconciliation of all interfund transfers:

<u>TRANSFERS</u>		
<u>Fund</u>	<u>In</u>	<u>(Out)</u>
City Storm Drain Project	\$ 290,000	
General	29,388	\$ 2,506,992
Utility		46,556
Debt Service	478,924	
Municipal Building	250,000	
Equipment Replacement	46,556	
Street Construction	350,000	
Cobble Rock Park		29,389
Parking Development	50,000	
SID	138,069	
Education Development	50,000	
Emergency Preparedness	300,000	
Legacy Fund	600,000	
Totals	<u>\$ 2,582,937</u>	<u>\$ 2,582,937</u>

14. **JOINT OPERATING AGREEMENTS WITH OTHER GOVERNMENTAL ENTITIES**

Vernal City has entered into joint operating agreements with Uintah County to provide services to the residents of Vernal City in the most economical manner to all of the residents of the City. These joint operations include the Vernal City/Uintah County Airport, Vernal City/Uintah County Cemetery, Vernal City/Uintah County Fire Department. Policy for the administration and operation of these joint ventures is established jointly by the Uintah County Commission and Vernal City Council. The entities have agreed to share the net cost after deducting applicable revenues of maintenance and operation, capital outlay and any other approved expenditure according to the following percentages:

- ❖ **Vernal City/Uintah County Airport.**
 Uintah County 75%
 Vernal City 25%
- ❖ **Vernal City/Uintah County Cemetery:**
 Uintah County 50%
 Vernal City 50%
- ❖ **Vernal City/Uintah County Fire Department**
 Uintah County 50%
 Vernal City 50%

14. **JOINT OPERATING AGREEMENTS WITH OTHER GOVERNMENTAL ENTITIES**
(Continued)

There is also a joint operating agreement between Vernal City, Uintah County, Duchesne County, Roosevelt City, Naples City and the State of Utah to operate the Uintah Basin Communications Center. Policy for the administration and operation of the Uintah Basin Communications Center is established jointly by a Governing Board, made up of one member each, from Uintah County Commission, Duchesne County Commission, Vernal City Council, Roosevelt City Council, and the State of Utah Public Safety Communications Director. The State of Utah is responsible for the payment of all operating expenditures, capital expenditures and wages and benefits. The various entities have agreed to share the cost of maintenance and operations, capital outlay and any other approved expenditure. Estimated revenue sources are as follows:

a. Utah Dept of Public Safety	25.0%
b. Uintah County	13.3%
c. Duchesne County	8.1%
d. Vernal City	12.9%
e. Roosevelt City	6.1%
f. Sale of services	34.6%

The Uintah Recreation District was established by Uintah County Commission in October of 1996. The board of district shall consist of ten (10) members. Seven (7) shall be appointed by the Uintah County Commission; one (1) member appointed by Vernal City; one (1) member appointed by Naples City and one (1) member by Ballard Town. The Recreation District is currently responsible for operating several of the Joint Operating Agreements in which Vernal City Participates.

Following is a description of each joint operation:

1. Golf Course

- ❖ Ownership of Facilities. The land and all of the golf course buildings and improvements is owned by Vernal City and The Municipal Building Authority of Vernal City.
- ❖ Administration of facilities. Policy for the administration and operation of the Golf Course Complex is established by the Recreation District Board.

2. City County Parks

- ❖ Ownership of Facilities. The City/County park complex located at 1000 West 300 North. The land and all of the buildings are owned jointly by Uintah County and Vernal City. Each entity owns 50% of the assets.
- ❖ Administration of facilities. Policy for the administration and operation of the City/County Park Complex is established by the Recreation District.

14. **JOINT OPERATING AGREEMENTS WITH OTHER GOVERNMENTAL ENTITIES**
(Continued)

There is a joint operating agreement dated January 24, 2001 between Vernal City, Naples City and Uintah County to construct and operate the Uintah Animal Shelter located at 1387 East 335 South, Vernal, UT. The project is to be administered by Vernal City.

The facility shall be owned by the Municipal Building Authority of Vernal City and the permanent Community Impact Board of the State of Utah.

Cost sharing of all operation and maintenance expenses and capital expenditures shall be shared by Vernal City, Naples City and Uintah County on the basis of actual use of the shelter as measured by the number of animals housed at the shelter during the fiscal year preceding the fiscal year (July, 1 – June, 30) in which the expenses are to be paid.

CIB loan repayment shall be shared by Vernal City, Naples City and Uintah County on the basis of actual use of the shelter as measured by the number of animals housed at the shelter during the fiscal year preceding the fiscal year (July, 1 – June, 30) in which the expenses are to be paid.

15. **JOINT VENTURE**

The Ashley Valley Sewer Management Board is a joint venture formed to provide sewage disposal service to the residence of the Ashley Valley. The participants in the joint venture are Vernal City, Maeser Water and Sewer Improvement District and Ashley Valley Water and Sewer Improvement District. The Governing Board is comprised of two (2) members from each of the participating entities. The Board makes all the decisions relating to operations, budgeting, etc. A condensed audited financial statement is outlined below:

ASHLEY VALLEY SEWER MANAGEMENT BOARD
BALANCE SHEET
DECEMBER 31, 2005
(AUDITED)

Assets

Current assets	\$ 1,150,270
Property and equipment (net)	19,395,395
Restricted assets	968,516
Other assets	1,273
Long-term investments	3,055,338
Total assets	<u>\$ 24,570,792</u>

Liabilities and Fund Equity

Current liabilities	\$ 439,877
Long-term liabilities	5,284,000
Fund equity	18,846,915
Total liabilities and fund equity	<u>\$ 24,570,792</u>

15. JOINT VENTURE (Continued)

Each of the participants has a 1/3 interest in the joint venture. The City's activity for the year ended June 30, 2006 is presented below:

Beginning Balance, 7-01-05	\$ 6,411,611
Vernal City's operating loss (Total loss 387,919 x 1/3)	<u>(129,306)</u>
Ending Balance, 6-30-06	<u>\$ 6,282,305</u>

All of the financial information presented above, and the information as reported in the accompanying financial statements, is taken from audited financial statements prepared by Karren, Hendrix & Associates, CPA's P.C, Salt Lake City, Utah.

16. POST EMPLOYMENT BENEFITS

In February of 2005, the Vernal City Council adopted an amendment to the City's Personnel Policies and Procedures providing for a post employment benefit using accrued sick leave of eligible employees. Briefly stated, the benefit is afforded to employees who have a minimum of 10 years of employment with the City, allowing such employees to utilize a limited amount of accrued sick leave to be converted to a benefit. The City is aware of present State litigation associated with this type of policy and further is aware of potential disclosure requirements pertaining to the financial liabilities of this policy.

17. PRIOR PERIOD ADJUSTMENT

During the current fiscal year, the City determined there had been several small differences in financial transactions between the City and the Narcotic Strike Force. After researching those differences, which occurred in prior years, it was determined to reimburse the Strike Force \$27,475 resulting in the prior period adjustment.

18. RESTRICTED NET ASSETS/FUND BALANCES

The restricted net assets of government wide financial statements and reserved fund balances of fund financial statements are disclosed below:

19. **RESTRICTED NET ASSETS/FUND BALANCES**

Net Assets – Government Wide Financial Statements

Class "C" Road – Funds received from the State of Utah to be used to improve Class C roads in the City.

Special Revenue Funds, Capital Projects – These amounts are restricted for expenditures relating to the purpose of the fund.

Utility Fund – This amount is restricted to meet bond sinking fund requirement.

Animal Shelters – Amount reserved for contribution to the new animal shelter program.

Debt Service Fund – Debt covenants require the City to maintain sinking and reserve funds for the repayment of revenue bonds.

Fund Balance – Fund Financial Statements

The same amounts that are reported as restricted net assets in the Government Wide Financial Statements, are shown as reserved fund balances in the Fund Financial Statements.

20. **DEFICIT FUND BALANCES**

The following fund had a deficit fund balance on June 30, 2006:

Capital Project – Housing Rehab	\$4,827
---------------------------------	---------

VERNAL CITY CORPORATION
COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2006

	SPECIAL REVENUE FUNDS				CAPITAL PROJECT FUNDS				
	NARCOTICS STRIKE FORCE	EMERGENCY 911	INTERLOCAL AGENCY	UCVC	PARKING DEVELOPMENT	MUNICIPAL BUILDING PROJECT	CITY STORM DRAIN PROJECT	CITY PARK GREEN SPACE	EQUIPMENT REPLACE- MENT
ASSETS									
Cash and cash equivalents	\$ 1,487								
Investments: restricted	284,874								
Investments					\$ 270,946	\$ 734,841	\$ 575,451	\$ 451,798	\$ 423,143
Due from other funds			\$ 7,300	198			39,133	253	
Due from other governments			1,149						
Assessment receivable									
Accounts receivable									
Total assets	\$ 286,361	\$...	\$ 8,449	\$ 198	\$ 270,946	\$ 735,039	\$ 614,584	\$ 452,051	\$ 423,143
LIABILITIES AND FUND BALANCES									
Liabilities:									
Accounts payable	\$ 206					\$ 198		\$ 274	
Accrued liabilities	5,234								
Due to other funds	67,895								
Deferred revenue									
Total liabilities	\$ 73,335	\$...	\$...	\$ 198	\$...	\$ 198	\$...	\$ 274	\$...
Fund balances:									
Unreserved, reported in:									
Special revenue funds	\$ 213,026		\$ 8,449		\$ 270,946	\$ 734,841	\$ 614,584	\$ 451,777	\$ 423,143
Capital project funds									
Debt service funds									
Total fund balances	\$ 213,026	\$...	\$ 8,449	\$ 8,449	\$ 270,946	\$ 734,841	\$ 614,584	\$ 451,777	\$ 423,143
Total liabilities and fund balance	\$ 286,361	\$...	\$ 8,449	\$ 198	\$ 270,946	\$ 735,039	\$ 614,584	\$ 452,051	\$ 423,143

VERNAL CITY CORPORATION
COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2006

	CAPITAL PROJECT FUNDS (Continued)						DEBT SERVICE FUND	TOTAL NONMAJOR GOVERNMENTAL FUNDS
	COBBLE ROCK PARK	STREET CONSTRUCTION FUND	EDUCATION DEVELOPMENT FUND	EMERGENCY PREPAREDNESS FUND	LEGACY FUND	HOUSING REHAB SID	DEBT SERVICE	
Cash and cash equivalents								\$ 1,487
Investments: restricted		\$ 205,152					\$ 277,552	767,578
Investments		855,885		\$ 301,618	\$ 602,724			4,216,406
Due from other funds			\$ 47,480			\$ 93,319	187,156	374,839
Due from other governments								1,149
Assessment receivable							201,673	201,673
Accounts receivable		2,073						2,073
Total assets	\$...	\$ 1,063,110	\$ 47,480	\$ 301,618	\$ 602,724	\$ 93,319	\$ 666,381	\$ 5,565,205

ASSETS

Cash and cash equivalents
Investments: restricted
Investments
Due from other funds
Due from other governments
Assessment receivable
Accounts receivable

Total assets

LIABILITIES AND FUND BALANCES

Liabilities:

Accounts payable
Accrued liabilities
Due to other funds
Deferred revenue

Total liabilities

Fund balances:

Unreserved, reported in:
Special revenue funds
Capital project funds
Debt service funds

Total fund balances

Total liabilities and fund balance

	\$ 87,973	\$ 11,057					\$ 99,708
	13,232				\$ 4,827		5,234
						\$ 187,561	83,954
							187,561
\$...	\$ 101,205	\$ 11,057	\$...	\$ 4,827	\$...	\$ 187,561	\$ 378,457
	\$ 961,905	\$ 36,423	\$ 301,618	\$ 602,724	\$ (4,827)	\$ 93,319	\$ 221,475
							4,486,453
						\$ 478,820	478,820
\$...	\$ 961,905	\$ 36,423	\$ 301,618	\$ 602,724	\$ (4,827)	\$ 93,319	\$ 5,186,748
\$...	\$ 1,063,110	\$ 47,480	\$ 301,618	\$ 602,724	\$...	\$ 93,319	\$ 5,565,205

VERNAL CITY CORPORATION
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	SPECIAL REVENUE FUNDS				CAPITAL PROJECT FUNDS				
	NARCOTICS STRIKE FORCE	EMERGENCY 911	INTERLOCAL AGENCY	UCVC	PARKING DEVELOPMENT	MUNICIPAL BUILDING PROJECT	CITY STORM DRAIN PROJECT	CITY PARK GREEN SPACE	EQUIPMENT REPLACE- MENT
REVENUES:									
Intergovernmental revenue	\$ 133,564		\$ 280						
Assessment revenues									
Miscellaneous	88,594		1,750						
Investment earnings	5,835	\$ 849			\$ 10,276	\$ 23,452	\$ 16,685	\$ 18,740	\$ 16,120
Total revenues	\$ 227,993	\$ 849	\$ 2,030		\$ 10,276	\$ 23,452	\$ 16,685	\$ 18,740	\$ 16,120
EXPENDITURES:									
Public safety	\$ 122,110	\$ 92,861							
Highways and public improvements							\$ 867		
Parks, recreation, and public property			\$ 2,300			\$ 3,976		\$ 274	
Economic development						44,391			
Capital outlay									
Debt service - principal									
Debt service - interest									
Total expenditures	\$ 122,110	\$ 92,861	\$ 2,300		\$...	\$ 48,367	\$ 867	\$ 274	\$...
Excess of revenues over (under) expenditures	\$ 105,883	\$ (92,012)	\$ (270)		\$ 10,276	\$ (24,915)	\$ 15,818	\$ 18,466	\$ 16,120
Other financing sources (uses):									
Transfers in					\$ 50,000	\$ 250,000	\$ 290,000		\$ 46,556
Transfers out									
Total other financing sources (uses)	\$...	\$...	\$...		\$ 50,000	\$ 250,000	\$ 290,000	\$...	\$ 46,556
Excess of revenues and other sources over (under) expenditures and other uses	\$ 105,883	\$ (92,012)	\$ (270)		\$ 60,276	\$ 225,085	\$ 305,818	\$ 18,466	\$ 62,676
Fund Balances - Beginning of year	79,668	92,012	8,719		210,670	509,756	308,766	433,311	360,467
Prior period adjustment	27,475								
Fund Balances - End of year	\$ 213,026	\$...	\$ 8,449		\$ 270,946	\$ 734,841	\$ 614,584	\$ 451,777	\$ 423,143

VERNAL CITY CORPORATION
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	CAPITAL PROJECT FUNDS (Continued)							DEBT SERVICE FUND	TOTAL NONMAJOR GOVERNMENTAL FUNDS
	COBBLE ROCK PARK	STREET CONSTRUCTION FUND	EDUCATION DEVELOPMENT FUND	EMERGENCY PREPAREDNESS FUND	LEGACY FUND	HOUSING REHAB	CITY WIDE SID	DEBT SERVICE FUND	
REVENUES:									
Intergovernmental revenue			\$ 2,500			\$ 25,000		\$	\$ 161,344
Assessment revenues								\$ 139,176	\$ 139,176
Miscellaneous		\$ 41,436		\$ 1,618	\$ 2,724			22,795	90,344
Investment earnings									160,530
Total revenues	\$...	\$ 41,436	\$ 2,500	\$ 1,618	\$ 2,724	\$ 25,000	\$...	\$ 161,971	\$ 551,394
EXPENDITURES:									
Public safety									
Highways and public improvements		\$ 16,458				\$ 29,827	\$ 6,682		\$ 214,971
Parks, recreation, and public property									17,325
Economic development									43,059
Capital outlay		467,319	\$ 16,077						16,077
Debt service - principal								\$ 300,000	\$ 511,710
Debt service - interest								121,266	300,000
Total expenditures	\$...	\$ 483,777	\$ 16,077	\$...	\$...	\$ 29,827	\$ 6,682	\$ 421,266	\$ 1,224,408
Excess of revenues over (under) expenditures	\$...	\$ (442,341)	\$ (13,577)	\$ 1,618	\$ 2,724	\$ (4,827)	\$ (6,682)	\$ (259,295)	\$ (673,014)
Other financing sources (uses):									
Transfers in		\$ 350,000	\$ 50,000	\$ 300,000	\$ 600,000		\$ 138,069	\$ 478,924	\$ 2,553,549
Transfers out	\$ (29,389)								(29,389)
Total other financing sources (uses)	\$ (29,389)	\$ 350,000	\$ 50,000	\$ 300,000	\$ 600,000	\$...	\$ 138,069	\$ 478,924	\$ 2,524,160
Excess of revenues and other sources over (under) expenditures and other uses	\$ (29,389)	\$ (92,341)	\$ 36,423	\$ 301,618	\$ 602,724	\$ (4,827)	\$ 131,387	\$ 219,629	\$ 1,851,146
Fund Balances - Beginning of year	29,389	1,054,246					(38,068)	259,191	3,308,127
Prior period adjustment									27,475
Fund Balances - End of year	\$...	\$ 961,905	\$ 36,423	\$ 301,618	\$ 602,724	\$ (4,827)	\$ 93,319	\$ 478,820	\$ 5,186,748

VERNAL CITY CORPORATION
COMBINING STATEMENT OF REVENUES AND EXPENSES
UTILITY FUND
FOR THE YEAR ENDED JUNE 30, 2006

				TOTALS	
	WATER DEPT.	SEWER DEPT.	SOLID WASTE DEPT.	JUNE 30, 2006	JUNE 30, 2005
OPERATING REVENUES:					
Charges for services	\$ 1,645,223	\$ 1,194,537	\$ 224,168	\$ 3,063,928	\$ 2,862,401
Total revenues	\$ 1,645,223	\$ 1,194,537	\$ 224,168	\$ 3,063,928	\$ 2,862,401
OPERATING EXPENSES:					
Wages and benefits	\$ 346,026	\$ 110,714		\$ 456,740	\$ 417,750
Services and supplies	1,175,021	1,015,489	\$ 222,874	2,413,384	2,298,871
Depreciation	245,988	113,377		359,365	372,028
Total operating expenses	\$ 1,767,035	\$ 1,239,580	\$ 222,874	\$ 3,229,489	\$ 3,088,649
Net income (loss) from operations	\$ (121,812)	\$ (45,043)	\$ 1,294	\$ (165,561)	\$ (226,248)
NON-OPERATING REVENUES (EXPENSES):					
Transfers in (out)		\$ (46,556)		\$ (46,556)	\$ 128,135
Interest earnings	\$ 29,078			29,078	13,726
Impact fees	69,000	108,255		177,255	103,860
Miscellaneous	330	5,228		5,558	11,014
Joint venture income (loss)		(129,306)		(129,306)	(158,960)
Grant	7,839			7,839	779,847
Property taxes	155,520			155,520	150,000
Interest expense	(23,070)	(4,551)		(27,621)	(12,294)
Total non-operating revenue (expenses)	\$ 238,697	\$ (66,930)	\$...	\$ 171,767	\$ 1,015,328
NET INCOME (LOSS)	\$ 116,885	\$ (111,973)	\$ 1,294	\$ 6,206	\$ 789,080

**VERNAL CITY CORPORATION
COMPARATIVE BALANCE SHEET
GENERAL FUND
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005**

	JUNE 30, 2006	JUNE 30, 2005
<u>ASSETS</u>		
Cash	\$ 56,199	\$ 150,653
Investments: restricted		156,223
Investment at cost	2,666,965	1,746,479
Accounts receivable	92,341	78,710
Due from other governments	1,337,246	1,105,341
Prepaid expense	5,000	5,000
	<hr/>	<hr/>
Total assets	\$ 4,157,751	\$ 3,242,406
	<hr/>	<hr/>
<u>LIABILITIES AND FUND EQUITY</u>		
Liabilities:		
Accounts payable	\$ 166,331	\$ 207,563
Due to other funds	1,574,539	1,515,805
Escrow deposit payable	371,019	102,968
	<hr/>	<hr/>
Total liabilities	\$ 2,111,889	\$ 1,826,336
	<hr/>	<hr/>
Fund Equity:		
Reserved for compensated absence	\$ 172,232	\$ 150,952
Reserved for Class "C" Road	62,446	52,573
Animal Shelter	14,401	
Unreserved	1,796,783	1,212,545
	<hr/>	<hr/>
Total fund equity	\$ 2,045,862	\$ 1,416,070
	<hr/>	<hr/>
Total liabilities and fund balance	\$ 4,157,751	\$ 3,242,406
	<hr/>	<hr/>

VERNAL CITY CORPORATION
COMPARATIVE STATEMENT OF REVENUES AND EXPENSES
WATER DEPARTMENT
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	JUNE 30, 2006	JUNE 30, 2005
OPERATING REVENUES:		
Charges for service	\$ 1,645,223	\$ 1,521,877
Total operating revenues	\$ 1,645,223	\$ 1,521,877
OPERATING EXPENSES:		
Wages and benefits	\$ 346,026	\$ 322,361
Services and supplies	1,175,021	1,126,457
Depreciation	245,988	244,911
Total operating expenses	\$ 1,767,035	\$ 1,693,729
NET INCOME (LOSS) FROM OPERATIONS	\$ (121,812)	\$ (171,852)
NON-OPERATING REVENUES (EXPENSES):		
Transfer AVWSD		
Interest expense	\$ (23,070)	\$ (7,519)
Grant	7,839	779,847
Interest earnings	29,078	13,591
Impact fees	69,000	33,000
Property taxes	155,520	150,000
Miscellaneous	330	4,933
Total non-operating revenues	\$ 238,697	\$ 973,852
NET INCOME (LOSS)	\$ 116,885	\$ 802,000

VERNAL CITY CORPORATION
COMPARATIVE STATEMENT OF REVENUES AND EXPENSES
SEWER DEPARTMENT
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	JUNE 30, 2006	JUNE 30, 2005
OPERATING REVENUES:		
Charges for service	\$ 1,194,537	\$ 1,156,007
Total operating revenues	\$ 1,194,537	\$ 1,156,007
OPERATING EXPENSES:		
Wages and benefits	\$ 110,714	\$ 95,389
Services and supplies	1,015,489	989,782
Depreciation	113,377	127,117
Total operating expenses	\$ 1,239,580	\$ 1,212,288
NET INCOME (LOSS) FROM OPERATIONS	\$ (45,043)	\$ (56,281)
NON-OPERATING REVENUES (EXPENSES):		
Miscellaneous	\$ 5,228	\$ 6,081
Transfer AVSMB		131,537
Interest earnings		135
Impact fees	108,255	70,860
Joint venture income	(129,306)	(158,960)
Interest expense	(4,551)	(4,775)
Transfers in (out)	(46,556)	128,135
Total non-operating revenues (expenses)	\$ (66,930)	\$ 173,013
NET INCOME (LOSS)	\$ (111,973)	\$ 116,732

VERNAL CITY CORPORATION
COMPARATIVE STATEMENT OF REVENUES AND EXPENSES
SOLID WASTE DEPARTMENT
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	JUNE 30, 2006	JUNE 30, 2005
OPERATING REVENUES:		
Charges for service	\$ 224,168	\$ 184,517
Total operating revenues	\$ 224,168	\$ 184,517
OPERATING EXPENSES:		
Services and supplies	\$ 222,874	\$ 182,632
Total operating expenses	\$ 222,874	\$ 182,632
NET INCOME (LOSS) FROM OPERATIONS	\$ 1,294	\$ 1,885
NET INCOME (LOSS)	\$ 1,294	\$ 1,885

SMUIN, RICH & MARSING

CERTIFIED PUBLIC ACCOUNTANTS

294 East 100 South

Price, Utah 84501

Phone (435) 637-1203 • FAX (435) 637-8708

CRAIG G. SMUIN, C.P.A.
R. KIRT RICH, C.P.A.
GREG MARSING, C.P.A.
DOUGLAS RASMUSSEN, C.P.A.

MEMBERS

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
UTAH ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS

Honorable Mayor and Members of the City Council
Vernal City Corporation
Vernal, Utah 84078

RE: Auditor's Report on State Compliance
For State Grants

Ladies/Gentlemen:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Vernal City Corporation for the year ended June 30, 2006 and have issued our report thereon dated November 15, 2006. As part of our audit, we have audited the City's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2006. The City received the following major State assistance programs from the State of Utah.

Class "C" Road (Utah Department of Transportation)
Liquor Law Enforcement (State Tax Commission)
CIB Grants (Department of Community and Economic Development)

The City also received the following nonmajor grants, which are not required to be audited for specific compliance requirements: (However, these programs were subject to testwork as part of the audit of Vernal City Corporation's financial statements.)

Fire Equipment Grant (Department of Natural Resources)
CIB Grant (Department of Community and Economic Development)

Our audit also included testwork on the City's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

Public Debt	Truth in Taxation & Property
Budgetary Compliance	Tax Limitations
Cash Management	Liquor Law Enforcement
Purchasing Requirements	B & C Road Funds
Other Compliance Requirements	Uniform Building Code
Justice Courts Compliance	Standards
Impact Fees	Asset Forfeitures

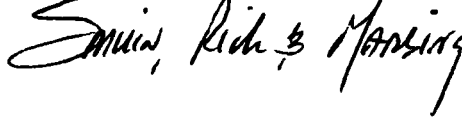
The management of Vernal City Corporation is responsible for the City's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying management letter. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, Vernal City Corporation, complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching; level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2006.

SMUIN, RICH & MARSING

A handwritten signature in cursive script that reads "Smuin, Rich & Marsing". The signature is written in dark ink and is positioned below the printed name of the firm.

Price, Utah

November 15, 2006

SMUIN, RICH & MARSING

CERTIFIED PUBLIC ACCOUNTANTS

294 East 100 South

Price, Utah 84501

Phone (435) 637-1203 • FAX (435) 637-8708

CRAIG G. SMUIN, C.P.A.
R. KIRT RICH, C.P.A.
GREG MARSING, C.P.A.
DOUGLAS RASMUSSEN, C.P.A.

MEMBERS

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
UTAH ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS

Honorable Mayor and Members of the City Council
Vernal City Corporation
Vernal, Utah 84078

RE: Report on Compliance and on Internal
Control Over Financial Reporting Based
on an Audit of Financial Statements Per-
formed in Accordance With Government
Auditing Standards

We have audited the financial statements of Vernal City Corporation as of and for the year ended June 30, 2006, and have issued our report thereon dated November 15, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, others within the organization, City Council and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

SMUIN, RICH & MARSING

A handwritten signature in cursive script that reads "Smuin, Rich & Marsing". The signature is written in dark ink and is positioned below the printed name.

Price, Utah

November 15, 2006

SMUIN, RICH & MARSING

CERTIFIED PUBLIC ACCOUNTANTS

294 East 100 South

Price, Utah 84501

Phone (435) 637-1203 • FAX (435) 637-8708

CRAIG G. SMUIN, C.P.A.
R. KIRT RICH, C.P.A.
GREG MARSING, C.P.A.
DOUGLAS RASMUSSEN, C.P.A.

MEMBERS

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
UTAH ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS

Honorable Mayor and Members of the City Council
Vernal City Corporation
Vernal, Utah 84078

Ladies/Gentlemen:

The following comments and recommendations are a result of our review of the accounting procedures and internal controls in connection with our examination of the financial statements of Vernal City Corporation for the year ended June 30, 2006.

Since our review was made primarily to determine the scope of our auditing procedures and was not intended as a comprehensive study or evaluation of the systems and procedures, this memorandum should not be considered all inclusive.

We welcome the opportunity to discuss any items mentioned in this memorandum or any other accounting or procedural questions.

DEFICIT FUND BALANCE

According to Utah State Law, Cities are not allowed to spend more funds than what they receive. By doing so, they create a deficit fund balance. The State Auditor has taken the position that a deficit, created by expenditures being made in excess of available funds, is illegally created debt in violation of the Utah Constitution. During the audit, we found that Capital Project – Housing Rehab had a deficit fund balance for the year ending June 30, 2006.

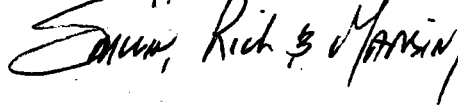
We recommend that adequate revenues be allocated to the fund to eliminate the current deficit.

SUMMARY

We feel the accounting procedures and internal control item mentioned above is an area where Vernal City Corporation can make changes so as to further improve their internal control structure to safeguard the assets, check the accuracy and reliability of accounting data and promote operating efficiency.

Sincerely,

SMUIN, RICH & MARSING



Price, Utah

November 15, 2006



January 4, 2007

Smuin, Rich & Marsing
PO Box 820
Price, UT 84501

RE: *Managment Letter - FY2006 Audit Response to Memorandum.*

Deficit Fund Balance:

In the FY2006 Vernal City Audit the financial statement showed a deficit fund balance in the Capital Project - Housing Rehabilitation Fund. This deficit balance was associated with a Community Development Block Grant (CDBG) project where preliminary engineering work was done, creating an expenditure of funds. After the solicitation of bids for the project, however, it was determined that the project could not be accomplished due to insufficient CDBG funding available. Consequently, the previous expenditure for engineering work was ineligible for reimbursement, utilizing any CDBG funds that had been available. This determination was made following the close of FY2006, and unfortunately no other funds were allocated to eliminate that funding deficit created from the expenditure for engineering work.

Vernal City will allocate the necessary funds in FY2007 to eliminate this deficit. We appreciate the auditors of Smuin, Rich & Marsing and the State Auditors Office in helping us in bringing this compliance issue to our attention.

Sincerely,

A handwritten signature in black ink, appearing to read "Ken Bassett", is written over the word "Sincerely,".

Ken Bassett,
City Manager